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Senate. Committee on Finance.

Soldiers' Adjusted Compensation

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# **SOLDIERS' ADJUSTED COMPENSATION**

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## **HEARINGS**

BEFORE THE

## **COMMITTEE ON FINANCE UNITED STATES SENATE**

SIXTY-SIXTH CONGRESS

THIRD SESSION

ON

## **H. R. 14157**

AN ACT TO PROVIDE ADJUSTED COMPENSATION FOR VETERANS  
OF THE WORLD WAR; TO PROVIDE REVENUE THEREFOR;  
AND FOR OTHER PURPOSES

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### **PART 1**

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## SOLDIERS' ADJUSTED COMPENSATION.

WEDNESDAY, DECEMBER 15, 1920.

UNITED STATES SENATE,  
COMMITTEE ON FINANCE,  
*Washington, D. C.*

The committee met, pursuant to the call of the acting chairman, in the committee room, Capitol, at 10.30 o'clock a. m., Senator Porter J. McCumber presiding.

Present: Senators McCumber (acting chairman), Smoot, La Follette, Dillingham, McLean, Curtis, Watson, Calder, Sutherland, Simmons, Gore, and Nugent.

Present also: Frederick W. Galbraith, jr., national commander, American Legion, Cincinnati, Ohio; John G. Emery, vice commander, Michigan; John Lewis Smith, District of Columbia, member of the national legislative committee of the American Legion; Gilbert Bettman, chairman of the national legislative committee of the American Legion; John Thomas Taylor, vice chairman national legislative committee; S. Lovenbein, chairman Rank and File Veterans' Association, 602 F Street NW., Washington, D. C.; Robert G. Woodside, commander in chief Veterans of Foreign Wars, Pittsburgh, Pa.; Maj. Clifford Cox, Veterans of Foreign Wars, Washington, D. C.; Edward H. Hale, chairman national legislative committee, Veterans of Foreign Wars, Metropolitan Bank Building, Washington, D. C.

Senator McCUMBER. The committee will please come to order. The committee has under consideration H. R. 14157, an act to provide adjusted compensation for veterans of the World War, and to provide revenue therefor, and for other purposes.

A number of gentlemen have sought to be heard on this bill before the committee. I do not know what arrangement has been made between those desiring to be heard as to which ones shall first give testimony in the matter. I leave that entirely to them, and if some of you gentlemen present will suggest who will be heard at this time I shall call upon them.

### STATEMENT OF MR. JOHN THOMAS TAYLOR, VICE CHAIRMAN NATIONAL LEGISLATIVE COMMITTEE, AMERICAN LEGION.

Mr. TAYLOR. The American Legion is desirous of presenting its argument first, Mr. Chairman.

Senator McCUMBER. Very well; through whom?

Mr. TAYLOR. Through the chairman of the national legislative committee, Mr. Gilbert Bettman, of Ohio, and the national commander, Col. F. W. Galbraith, jr.

At this time, Mr. Chairman and gentlemen of the Senate Finance Committee, on behalf of the American Legion and the other veteran organizations here to-day, I desire to express our appreciation for this early opportunity you have given us to appear on the adjusted compensation bill.

The American Legion is composed of more than 2,000,000 men and women who have seen service in the World War. They are unanimous on this adjusted compensation bill, and at their recent convention in Cleveland, held September 27, 28, and 29, the delegates from every State throughout the country, after full discussion on the floor of the convention, adopted the following resolution. [Reading:]

*Resolved*, That the American Legion, in national convention here assembled, gives its unqualified approval of House bill No. 14157, which passed the House of Representatives by a vote of 289 to 92 May 29, 1920, and which is now pending before the Senate, and which provides for the optional plan of either—

1. Adjusted service pay, based on length of service;
2. Adjusted service certificates maturing in 20 years, based on length of service;
3. Vocational training;
4. Farm or home aid; or
5. Land settlement, for which 31 States have already made, through their State legislatures, provision for cooperation: And be it further

*Resolved*, That the American Legion, in national convention here assembled, commends and approves the action of the national executive committee and the national beneficial legislative committee in formulating and presenting this adjusted compensation legislation to Congress: And be it further

*Resolved*, That the American Legion, in national convention assembled, hereby directs the national executive committee to take such action as it may deem necessary to insure the prompt passage of this bill.

Our presentation to-day, gentlemen, will be limited, and I desire to present first the chairman of the national legislative committee, Mr. Gilbert Bettman, of Ohio.

**STATEMENT OF MR. GILBERT BETTMAN, OF OHIO, CHAIRMAN OF NATIONAL LEGISLATIVE COMMITTEE OF THE AMERICAN LEGION.**

Mr. BETTMAN. Mr. Chairman and gentlemen of the committee, I appear as a representative of the American Legion, as chairman of the national legislative committee of that body. I appreciate that in talking here we are at the engine room of the ship of state, and what you want, gentlemen, is fuel of thought and not hot air.

We come here in a spirit of helpfulness, to try to offer the point of view of the American Legion, as representing 2,000,000 men and women in its own body, and we believe also representative of the 4,500,000 who were in the service.

I think we can be of assistance if I should say a word to this committee by way of introduction of the history of this legislation. Maybe I will say some things that you already know. But you are busy men, and possibly the exact history of how this originated and what part the American Legion has played may not have come directly to your knowledge. The first act of the American Legion on this question of adjusted compensation was done in the fall of 1919, when the first regular convention of the American Legion was held, and at that time an effort was made by some to have the American Legion go on record as requesting an adjustment of compensation from the Congress of the United States.

The American Legion at that time refused to do that. The point of what they did was this: The American Legion said that it was for Congress to determine what, if any, adjustment should be made of compensation. The resolution—and I want to give you these facts, because I think they are fundamentals and will give you the setting and the background of this question was (reading):

*Be it resolved*, That while the American Legion was not founded for the purpose of promoting legislation in its selfish interest, yet it recognizes that our Government has an obligation to all service men and women to relieve the financial disadvantages incidental to their military service—an obligation second only to that of caring for the disabled and the widows and orphans of those who sacrificed their lives and one already acknowledged by our Allies—but the American Legion feels that it can not ask for legislation in its selfish interest, and leaves with confidence to Congress the discharge of this obligation.

That was the position of this representative soldier body in November of 1919. Thereafter bills were introduced in Congress by various Representatives in Congress for divers kinds of soldier beneficial legislation, some bills providing for loans, some for farm aid, some for cash—indeed, the number of those bills amounted in the early spring of 1919 to 79, I think. These bills, because they provided for necessary payments by the Government, were referred by the House of Representatives to the Committee on Ways and Means, and in the spring of 1919 the Committee on Ways and Means invited and asked the American Legion to appear before it and to express the views of the American Legion on what form of beneficial legislation the American Legion thought would best meet the needs of the men and best preserve the interests of the country.

So the American Legion came to the lower House of Congress, at the invitation of the House, and did what it could to bottle neck through to the Ways and Means Committee the views of the American Legion and the views of the ex-service men and women. And to that end the national beneficial legislative committee was formed, which committee, instead of simply announcing policies and determining upon generalities, thought it could be of greater assistance to the House of Representatives by actually putting into the form of a bill its conclusions on what form of beneficial legislation would meet the needs of the hour; and it devised—that national beneficial committee of the American Legion—that fourfold optional plan of beneficial legislation which is the nub and substance and structure of the bill which has been passed by the House of Representatives.

In order to make sure that that plan did meet the needs and did express the views of the entire body of the American Legion, the report of that committee was submitted to the executive committee of the American Legion—men from all over the United States; and then a poll was taken in the various departments of the American Legion in each State, to get the views and the reactions to that bill of this entire body of men; and the American Legion executive committee—

Senator SIMMONS (interposing). What do you mean by the "various departments"? I would be very glad to have you explain what those departments are, so that we may see to what extent canvass was had and what opportunity was afforded for measuring the sentiments of your membership.

Mr. BETTMAN. I am glad you asked that question, Senator. The departments are simply subdivisions of the Legion which are co-terminous of the States; for example, the Ohio department, the New York department, etc.; and there is a department in every State of the Union. There are departments overseas, in France and Great Britain and in the Philippines.

Senator SIMMONS. You mean there is a sort of executive committee in each State, with jurisdiction in that State?

Mr. BETTMAN. Yes; made up, however, of the local posts. There are 10,000 posts in the United States of the American Legion—I think it is 9,800 and something.

Senator LA FOLLETTE. That includes the entire membership?

Mr. BETTMAN. That includes the entire membership. So there is the national body, the State body, and the local posts.

Senator SIMMONS. The posts are local organizations?

Mr. BETTMAN. They are local organizations.

Senator SIMMONS. Of the service men?

Mr. BETTMAN. Yes; and women.

Senator SIMMONS. Do you mean to say that this plan which you outlined was submitted to each local post?

Mr. BETTMAN. The views of the local posts were bottle necked through to the departments and through the departments, just exactly as in any well-organized procedure.

Senator SIMMONS. How was the sentiment of the local posts expressed? Was it expressed by direct action on the part of the membership of that post in convention or meeting assembled?

Mr. BETTMAN. Every year, Senator, there are conventions held in the various departments, and these conventions ratified the acts of the national executive committee and the acts of the committees that proposed this legislation.

Senator SIMMONS. Those are State conventions?

Mr. BETTMAN. Those are State conventions. And then since that time the entire body has met. These hearings before the Committee on Ways and Means were in May of this year, and in September of this year the entire action of the Legion was put up to the national convention, which was held in September at Cleveland, and there again the action of the American Legion was ratified.

Senator SIMMONS. I understood you to say it was ratified by the national convention and by the State conventions. But what I had in mind in asking the question was whether this matter had also been submitted to the local posts throughout the country, and what was the action of the local posts, if any?

Mr. BETTMAN. The local posts were all represented in the State or the department—

Senator SIMMONS (interposing). By their delegates?

Mr. BETTMAN. By their delegates to the State.

Senator SIMMONS. That answers it.

Senator LA FOLLETTE. The local posts were not supplied with copies of the bill?

Mr. BETTMAN. Oh, my, yes; of course, they were.

Senator SIMMONS. They did not act as local posts, except through their representatives in the State convention?

Mr. BETTMAN. There was a poll taken after the first meeting of the executive committee, and there was a practical polling of every

post in the United States. Of course, do not understand me to say that there is absolutely no one in the United States in the American Legion that might hold a different view; I am not saying that.

Senator SIMMONS. Oh, no.

Mr. BETTMAN. But we are saying that the national convention, the national executive committee, and the posts through their representatives in the State departments have all ratified and approved this action. I think if anything can be considered to be the unanimous opinion of the American Legion, the approval of that bill proposed to the lower House represented that approval. I think the vote in the executive committee the first time was 47 to 4. There was a dissent on the part of some members in the South because of the particular problems they have there, which, of course, you gentlemen can readily infer. But when the matter came up the last time it was voted upon in the national convention—and certainly national conventions voice the sentiments of any organization—it was approved by the national convention with only the dissenting vote of South Carolina.

So it may be said with conviction that the bill as presented to the Ways and Means Committee was the voice of this representative body—the American Legion—and represented the service men.

Senator NUGENT. Is it not true that copies of this bill were furnished to the local posts of this organization throughout the country, and that those local posts by resolution or otherwise ratified and requested the passage of this bill and instructed their delegates to the State convention to take such action?

Mr. BETTMAN. That is absolutely true; and that is the way that the vote was taken of the delegates to the departments.

Now, then, in the American Legion, in taking this action—I want to stress this point by way of introduction very, very strongly—I think that this committee should know that the American Legion has never taken a selfish attitude on this question. They do not regard themselves as representing merely the service men. They are representative, they think, of the people of the United States as well as the service men, and every action which the American Legion has undertaken in its history has been with a sense of double obligation—first to their own comrades as well as to the Nation at large. Therefore, I do not think that the views of the American Legion can be dismissed as simply the view of a partisan element in the body politic.

I want to read to you, gentlemen, the preamble to the constitution of the American Legion, and as you hear those words I want you to realize that they are not empty sounds in the life of the American Legion; they are the real keynote of the action of that body, and I say that with all the conviction that I can muster. [Reading:]

For God and country, we associate ourselves together for the following purposes:

To uphold and defend the Constitution of the United States of America; to maintain law and order; to foster and perpetuate a one hundred per cent Americanism; to preserve the memories and incidents of our association in the Great War; to inculcate a sense of individual obligation to the community, State, and Nation; to combat the autocracy of both the classes and the masses; to make right the master of might; to promote peace and good will on earth; to safeguard and transmit to posterity the principles of justice, freedom, and democracy; to consecrate and sanctify our comradeship by our devotion to mutual helpfulness.



Now, the American Legion's action in answering this inquiry of the House of Representatives as to what form of beneficial legislation would best meet the needs of the hour was not given in a selfish spirit of getting something for the service men, but in a spirit of trying to decide the question for the good of the men and for the good of the country.

This bill was therefore presented after that careful action of this body, which has the power of bringing to an exact focus the views of 2,000,000 men, and this bill presented to the House—this four-fold optional plan, as it was called, which provided for an adjustment of compensation by home aid or farm aid, by land project, by vocational training, or by a cash payment. The structure of that bill was adopted by the Ways and Means Committee.

Senator SIMMONS. You say "cash payment." I have not examined the bill very carefully.

Mr. BETTMAN. Yes.

Senator SIMMONS. Do you mean pay down in money immediately, or in using the word "cash" do you mean something that represents cash?

Mr. BETTMAN. Yes; pay in cash.

Senator SIMMONS. To be paid in the future?

Mr. BETTMAN. No; paid now. That is the first alternative in this optional plan.

That bill was, as I say, presented, and I think it can be said without egotism on the part of the American Legion that though their hearings were on this bill which is before you gentlemen, the record of which, I think, represents 780 pages, the American Legion occupied just 47 pages of that 787. And yet the work that had been done by the legion in presenting this bill was the work which was accepted by the Ways and Means Committee and found its way, in all substantial particulars, into the bill which was passed by the House by a vote of 289 to 92.

Now, then, with these introductory statements I want to give just a sketch of the bill itself, so that you gentlemen may get an idea—

Senator McLEAN. Just a minute before you proceed with that. I have not followed the recent developments with regard to the different interests which some time ago seemed to be very much concerned with this legislation. I just notice, however, on page 37 of these House hearings, that Mr. Hale remarks:

Our friends the American Legion have advocated a selective program. The Veterans of Foreign Wars emphatically dissent from this proposition.

I understand the Veterans of Foreign Wars to be a separate organization of 750,000 or more?

Mr. BETTMAN. Yes.

Senator McLEAN. I have not read these hearings in full, but I would like to know whether there are separate organizations, like the one represented by the Veterans of the Foreign Wars, who are still protesting against the proposal of the American Legion?

Mr. BETTMAN. There are two points to that question. Answering your first point, Are there separate organizations? the answer is: Yes; there are separate organizations of veterans; the American Legion is not the only organization. But the American Legion thinks that it is very representative of the service men. There are other

organizations, and one of them is the organization which you name—the Veterans of Foreign Wars—who, hearing of this meeting this morning, which we were invited to attend, are also here, and I understand from those gentlemen that they are back of this same bill which the House passed.

Senator McLEAN. Then there is a general agreement at this time between all the parties at interest?

Mr. BETTMAN. I think that I can say there is. The attitude mostly has been in regard to the other organizations; we welcome their cooperation and wish long life to them, and doubtless as long as they are of service they will live. But I have been stressing just the part which the American Legion has played in order to help Congress to arrive at a solution of this question.

Senator McCUMBER. Just please tell the committee who compose the membership of the American Legion—men who fought in all the foreign wars?

Senator McLEAN. I do not mean just this war, but other wars?

Mr. BETTMAN. And exists for the others, not only—

Senator McLEAN (interposing). Is that true?

Mr. BETTMAN. It includes the Spanish-American War veterans—

Senator McLEAN (interposing). And veterans of the Civil War?

Mr. BETTMAN. No; that was not a foreign war.

Senator McLEAN. As I understand it the Veterans of Foreign Wars is composed largely of men who did foreign service in the last war?

Mr. BETTMAN. Of course the American Legion is composed that same way.

Senator McLEAN. That includes those who served on this side as well as those who served on the other side?

Mr. BETTMAN. Oh, yes; any man who served from April to November 11, 1918, is entitled to membership in the American Legion. The Veterans of Foreign Wars has a representative here in the person of Mr. Robert G. Woodside, who has just said that they will speak for themselves.

Senator LA FOLLETTE. Will you please name the various organizations of veterans?

Mr. BETTMAN. I do not think I could.

Senator LA FOLLETTE. There are large numbers of them?

Mr. BETTMAN. Quite a few of them; I do not know how many—probably 18 or 20.

Senator LA FOLLETTE. How many of them are represented here—what organizations are here to-day?

Mr. BETTMAN. I do not know who is here. I think only the Veterans of Foreign Wars; is that correct?

Mr. LOVENBEIN. The Rank and File Veterans' Association is represented here.

A VOICE. The Soldiers and Sailors' Legion are here.

Mr. BETTMAN. To continue, gentlemen, with just a brief outline of the scheme of this bill, it provides for an optional plan of adjusted compensation.

Senator SIMMONS. Before you enter upon that, I do not understand that your bill provides any relief of any kind to any veterans unless they are veterans of the World War?

Mr. BETTMAN. That is true. The scheme of the bill is this: It is an attempt to approximately adjust the compensation of the men who served in the World War. As the needs of those men were very diverse, the plan was to provide either for a payment in cash or an advance in the shape of an adjusted service certificate. That part of this bill was put in by the House of Representatives; it was not in the original bill propounded by the Legion. It is in the nature of an insurance for the men. It provides for no cash payment, but gives the men a certificate payable in 20 years if he lives, and payable on his death should he die; and it is the amount of his adjusted pay plus interest compounded for 20 years.

Senator McCUMBER. After three years he may borrow 90 per cent of it?

Mr. BETTMAN. Yes.

Senator McCUMBER. And after five years 80 per cent?

Mr. BETTMAN. Yes. In addition to that insurance feature of it, it has the feature that Senator McCumber has just spoken of, being the basis of the loan to the service man from the Government.

The next alternative was the alternative of taking his adjusted compensation in the shape of vocational training with the Vocational Training Board already in existence.

The next is the land-settlement feature, which is part of a project to settle the ex-service men upon the lands in the West mainly, and to aid them in acquiring their land by giving them their adjusted service pay in the shape of an advance toward that payment for their land.

Now, then, in order that the obligation to the country might be performed, and to see that the adjusted service pay was used in productive channels as far as possible, the American Legion devised the plan of making those service-pay adjustments taken in the productive channels of a greater value.

Senator SIMMONS. Pardon me just one moment: You consider this as an optional plan. But if all the veterans would see fit to take cash would they all be entitled to cash?

Mr. BETTMAN. Under the bill they would. But the answer to that is they will not all accept the option that way.

Senator WATSON. Have you any idea how many will avail themselves of these options? Is there any way to determine that?

Mr. BETTMAN. There is no way, Senator Watson, to determine that.

Senator WATSON. Have you ever sought to determine it?

Mr. BETTMAN. That is only a matter for judgment and estimation.

Senator WATSON. Certainly.

Mr. BETTMAN. Our best judgment is that the number who will take cash is small. I was just about to say that those four avenues of adjusted compensation—vocational training aid, land project, and the insurance, etc., are so sweetened in this bill 40 per cent—that is, a man will get, say, \$1.25 a day if he takes it in cash, but if he takes it in any of those other four forms he will get \$1.25 plus 40 per cent of \$1.25. The idea was to encourage the men to take it in the productive channels, to take it as home aid or as a part of payment in acquiring a home in the West, or as vocational training.

To come back to your question, Senator Watson, it is the opinion of many men who have thought of this question that in view of the

diverse needs of the men over the country, in view of the fact that these productive avenues of adjusted compensation, home aid, etc., have the attractive feature of 40 per cent more than the cash, our judgment is that not over 50 per cent of the men, if that many, will exercise their option for cash. It is only an estimate, Senator.

Senator McLEAN. Upon what do you base your judgment?

Mr. BETTMAN. We base it simply upon the greater attractiveness of the other features of the bill. The fact that 300,000 men are now trying to learn from the Interior Department how they can get farms, and they are waiting for information and showing their interest in farm and land projects as well as the men who are showing their interest in cash.

Senator McCUMBER. The farm conditions at the present time would not encourage them very much along that line, would they?

Mr. BETTMAN. Of course, many men think that is just a temporary situation.

Senator McLEAN. There has been no canvass made of the personnel at the different posts to find out what proportion would prefer cash?

Mr. BETTMAN. Such a canvass would be practically impossible. How could you take a poll before there is any assurance that the bill would be passed?

Senator SMOOT. Let me ask you a question.

Mr. BETTMAN. Yes.

Senator SMOOT. There is some organization or association—I do not know whether it is the American Legion or some other organization of the soldiers—that has taken action in this regard, and I have tabulated the post cards I have received from all over the United States as to just what the soldiers who have sent me these postal cards want, and I want to say to you that there is 98 per cent of those who have written to me who want cash. I do not know whether the organization that is asking for cash is more active than the other organizations, but 98 per cent of those sending postal cards to me from all over the United States are asking for cash.

Mr. BETTMAN. Possibly that is a propaganda against the bill; I do not know.

Senator SMOOT. Oh, no. It is not from my State alone. I know people in my State who have asked for cash not through a propaganda; it comes through other organizations and it is in the form of printed postal cards. I can show them to you by the thousands if you will come to my office.

Mr. BETTMAN. It has been presented to the men as an opportunity to state what they want.

Senator SMOOT. The men have addressed postal cards to me, and I think many of the other Senators have many of them, too, answering the question as to which one of the four propositions they wished, they have generally said "Cash"—that is, not always, but 98 per cent have said "Cash."

Mr. BETTMAN. In order to answer the question—of course, if you have conducted in your own State—

Senator SMOOT (interposing). This is not only in my own State, and I have not conducted it. I can show you postal cards from every other State in the Union.

Senator DILLINGHAM. I think that is true; I have received cards from my own State.

Mr. BETTMAN. I did not know that any such poll had been sent out. The American Legion has not undertaken such a poll. It is also indefinite as to whether the bill is going to pass or not, and it is, of course, uncertain what percentage of the men will say they prefer cash to home aid.

Senator WATSON. You have seen these postal cards, have you not?

Senator SMOOT. They are headed—

#### MY OPINION ON THE BONUS QUESTION.

We want you to know how the ex-service men (and folks in general here) feel about the bonus question—adjusted compensation for ex-service men. We want you to come out publicly during the coming campaign and when Congress meets again as indicated below:

I am for the bonus. I favor cash. My post is for the bonus. The name of my post is James Henderson. I find that the public here is for the bonus.

We want you to be for the bonus during the coming political campaign and when Congress meets again. We would like to have you let us know how you stand.

I have received thousands of those cards from every State in the Union. I have tabulated mine, and I say to you now that there is 98 per cent of them who are for cash.

Mr. BETTMAN. I am informed that those postal cards were sent out by the Stars and Stripes.

Senator SMOOT. It says:

This expression of opinion is made possible by the cooperation of the readers and friends of the Stars and Stripes and ex-service men everywhere.

Mr. BETTMAN. That is propaganda for the bonus. Now, then, whether of not that truly represents the ex-service men or not I do not know. The Stars and Stripes were trying to get a cash bonus, and no doubt they got expressions from men who were in favor of a cash bonus.

Senator SMOOT. This is left optional with them.

Senator SIMMONS. I think if you would discuss the other plans in a way, if you can, to show us that there would be many men receive greater benefits through some other one of your four methods than through the cash plan, I think it would help us more than merely discussing the figures as to how many you think were for cash and how many you think were for the other plan.

Senator McCUMBER. Before proceeding with that, let me say to the witness that here is a bunch of the same kind of postals Senator Smoot referred to that have come to the office of Senator Penrose. [Exhibiting package of postal cards.] I have picked out of the bunch 13 cards, of which 10 call for cash, 2 favor the loan, and 1 makes no recommendation; and possibly that will give a fair estimate of the number that wish cash.

Senator SIMMONS. I understood you to say awhile ago that you thought a great many would select one of these methods of settlement, because they would get 40 per cent more than they would if they got cash. I want you to explain to us exactly the method by which they would get this additional percentage.

Mr. BETTMAN. That is the provision in the bill.

Senator SIMMONS. Explain it to us, please. I do not catch it. I have not read the bill very carefully. I would prefer to hear you gentlemen before I do read it.

Senator McCUMBER. I have made up a very short statement of each one of these systems, and if I may read them to you—

Senator SIMMONS (interposing). Is it in the record, Mr. Chairman—

Senator McCUMBER (interposing). They have not been put in the record, but I will read them into the record now.

Senator SIMMONS. All right.

Senator McCUMBER (reading):

#### BONUS PLAN.

1. *Adjusted service pay.*—This pay is \$1.25 for each day of overseas service and \$1 for each day of home service; the former not to exceed \$625, the latter not to exceed \$500. Service is between April 5, 1917, and July 1, 1919.

2. *Adjusted service certificates.*—These certificates add 40 per cent to the adjusted service pay, plus interest thereon for 20 years at the rate of 4½ per cent per annum compounded annually—

Senator SIMMONS (interposing). Let me ask the witness a question. Does that mean you would add 40 per cent to the \$1.25 before you begin?

Mr. BETTMAN. Yes, sir.

Senator McCUMBER. Let me finish putting this in, because I think it will help the committee understand this.

Senator SIMMONS. Yes.

Senator McCUMBER (reading continued):

such amount being approximately equal to 3.38 times the adjusted service pay. This sum is not to be paid until the end of 20 years, but 90 per cent may be borrowed through the Post Office Department between the third and fifth years and 80 per cent from the sixth to the twentieth year.

3. *Vocational training aid.*—The Federal Board for Vocational Education, upon certification from the Secretary of War or the Secretary of the Navy to pay to veterans designated (if not receiving benefits of vocational rehabilitation act) the sum of \$1.75 for each day of attendance on course of training, total payment not to exceed 140 per cent of amount of adjusted service pay. If payments under this section, plus amount forfeited for unjustifiable absence, is less than 140 per cent of adjusted service pay, veteran shall be entitled to receive an amount equal to difference between (1) adjusted service pay and (2) that proportion thereof which the payments made or accrued under the section providing \$1.75 for each day of attendance on a course of vocational training, plus amounts forfeited for unjustifiable absence, bear to 140 per cent of adjusted service pay, provided that from this amount shall be deducted an amount equal to the sum forfeited for unjustifiable absence.

4. *Farm or home aid.*—The national veterans' settlement board, upon certification from the Secretary of War or the Secretary of the Navy, is directed to pay to veteran, in one payment or installments, an amount equal to his adjusted service pay increased by 40 per cent.

5. *Land settlement aid.*—The national veterans' settlement board is authorized to establish projects for reclamation and settlement of lands by means of irrigation, drainage, etc. The Secretary may withdraw from location, sale, settlement, entry, or other disposition and place under control of the board such unappropriated public lands as he may deem necessary for any project, and shall restore to public entry lands so withdrawn, if subsequently board finds that such lands are not so required.

So far as practicable veterans shall be employed and services utilized in administrative and field work. The board shall establish farm units of acreage sufficient in opinion of the board to support a family, and smaller units sufficient in opinion of board for part time cultivation by a farm worker's family. These farm units or farm workers' units shall be allotted to any veteran or



repatriate who applies and whose name has been properly certified. As between applicants preference shall be given to those applicants employed on projects and to those considered less likely to fail and to cause loss to the United States.

That, in brief, is the substance of this entire bill, so far as the four projects are concerned.

Senator SMOOR. It is substantially a 20-year endowment policy.

Senator McLEAN. I would like to ask a question: It must be very clear to the witness that Congress if it enacts this law has got to provide the ways and means for carrying it out, and it is important for Congress to know whether it has got to raise two or three billions in cash or only two or three hundred millions in cash, to start with; and it seems to me to be entirely practicable for the officers in these posts throughout the country to take a canvass of the membership of each post and ascertain fairly what the choice of the membership would be, assuming that this bill is to pass. And what I would like to know is whether anything of that kind has been done. Otherwise, we have no guide—it is entirely guesswork, and we do not know whether we have got to raise billions or hundreds of millions.

Mr. BETTMAN. That point, of course, is well observed, Senator. But the situation has not yet developed to the point where such a canvass could be undertaken with great confidence. I admit that your observation might be followed out.

Instead of doing that, the American Legion has gone on record to this effect, and pledges itself to the Congress of the United States to do this: That when this bill is passed a campaign will be started by the American Legion to do all in its power to have the men exercise their option in favor of some of these productive channels rather than the pure cash bonus.

Now, then, we might do both things; we might follow your suggestion; we might say, "Well, let us take a canvass in advance, in order that the Senate might be advised." We have not had time to do that thing. But let me say this, gentlemen—

Senator LA FOLLETTE (interposing). It would be true, would it not, that maturer consideration and discussion in the various posts might change individual attitudes? If you took a census of your posts at this time there might be a large percentage of them would prefer cash and express themselves in that way, and yet the matter if thoroughly canvassed with them, and when they see the larger benefits that might be derived from some of the other options, they might change their opinions?

Mr. BETTMAN. Yes, sir.

Senator LaFOLLETTE. So that such a preliminary canvass might be very misleading?

Senator McLEAN. That is true, Senator LaFollette, but if the preliminary canvass showed that 98 per cent of the membership were now in favor of cash and that, if so, since Congress must provide the ways and means, it would be futile for us to go ahead and pass this bill without raising the money in some way.

Mr. BETTMAN. Let me make two observations.

Senator McLEAN. Where a much larger sum would be necessary than if the number was very small who wanted cash.

Mr. BETTMAN. Let me make two observations: The American Legion has 2,000,000 members; we have not 4,500,000 men in our

ranks, and there were 4,500,000 men in the service. So it would not be possible to even accomplish what you desire us to, to wit, to get a poll of every service man and woman in the United States.

Senator SIMMONS. But, do you not think the expression of 2,000,000 of the 4,500,000 could very reasonably be accepted as representing the sentiment of the polls?

Mr. BETTMAN. It might. But I do not know whether the Senator would be willing to bank legislation on that entire poll.

Senator SMOOT. I do not think your statement is quite correct. I do not think The American Legion has ever gone out and made propaganda for cash bonus, but I do believe other organizations have, and nothing but cash bonus will suit them. You know those organizations as well as I do?

Mr. BETTMAN. Yes.

Senator McLEAN. And these post cards may represent nothing but that propaganda.

Senator SMOOT. Whatever legislation is passed, Congress has got to be in a position to meet it, no matter what it costs.

Mr. BETTMAN. Yes, Senator; but in considering the policy of the project, do not determine the question of policy by a false percentage; and if you think that 98 per cent of the service men of the United States are going to vote for cash, when they can get their insurance or their vocational training or their farm or home aid or land project—if you think that 98 per cent of those men are going to take cash instead of those other options, I think that is an erroneous figure—very erroneous.

Senator SMOOT. I have not expressed myself that the veteran would take it. I am telling the situation as it has developed in the propaganda that has been started. I say, I do not think that the American Legion has started that propaganda, but I do know this, that of the postal cards that I have received 98 per cent of them say that the signers of those want cash, and that their option is for cash; that I do know.

Mr. BETTMAN. That may be true and that undoubtedly is true, but just as the Senator observed, those postals were sent out with that object in mind.

Senator McLEAN. That may be true, but it seemed to me to be a very easy matter to take a canvass of representative posts in the different States of the Union—not all of them, but you might get some basic idea that would represent or furnish the committee with information that would be valuable, because we have got to know; that is, if we pass this law we have also got to raise the funds.

Senator SMOOT. They would not be bound by whatever they said anyhow.

Mr. BETTMAN. No; and as Senator La Follette has said, you might get a more inaccurate vote, and when the thing was put up to the man you might get something different.

Senator McLEAN. But now we have no indication whatever. It seems to me it would be worth while to ascertain, if possible, to some degree the choice of the members of the Legion.

Mr. BETTMAN. I think that could very well be done.

Senator SIMMONS. I have no idea that anything like 98 per cent, under the several plans that have been discussed, would demand cash.

Senator SMOOT. Nor have I.

Senator SIMMONS. The plan is very attractive to a great many people. There is a certain element who want cash, and I think they are probably the ones who wrote these cards. I think they are representative of that particular element, and I have no doubt a canvass would show that probably the membership would be something like equally divided upon these four plans. But I do believe if it could be done without too great inconvenience by your national committee, that if you were to sound the various posts of the country—and that would not take very much time—upon this question and give us in a general way the results of their poll I think it would be very helpful to us.

Senator McLEAN. Certainly it would, if they were willing to sign their names to their choice. I think that would be rather initially connected with your propaganda that you intend to carry on afterwards in an effort to persuade them that the better choice is not to take the cash.

Mr. BETTMAN. I think it would be, and I think that can be put up to the Legion.

Senator SIMMONS. If as a result of your inquiry you can show that 75 per cent wanted cash, probably that would influence even the friends of this measure to desire to amend it so that the whole of this cash should not be paid at once, but be paid, maybe, in one, two, or three years—something of that sort.

Mr. BETTMAN. Or you might extend the time during which the men could exercise the option, which is another suggestion.

Senator WATSON. What would it cost, all cash?

Mr. BETTMAN. That is a mere matter of calculation. The War Department says that the average service was 300 days, and if there were 4,500,000 men, 300 days, at \$1.25 per day—but, of course, you know there is a limit in this bill, \$625. Three hundred days at \$1.25 is \$375, and 4,000,000 would take just 4,000,000 times that. But the committee is not going to help itself, I believe, if it assumes that such a large percentage of the men are going to take cash.

You have got to consider what these men have been through and who they are. Just a short time ago they were the great heroes of the Nation. They have not lost their capacity for judgment and clear thinking. A home means something to them; a farm means something to them; and insurance for their benefit and the benefit of those who are dependent on them means something to them.

If a poll were taken, I think it could safely be said that not over 50 per cent would take cash. But to meet the suggestion, if it will be helpful to the committee, I think such a poll might be attempted, an unbiased, nonpartisan poll, to get a reflex of the great service body. But, of course, this question has come up before the opportunity was presented to do that. The Senate Finance Committee, as we understood it, desired to know what its scheme of general taxation should be; of course, it wanted to know what its obligations were, and therefore desired to hear the American Legion.

Senator McLEAN. You realize, if you come before this committee after taking this poll with a proposition that is going to require, say, a billion and a half of cash now, with a billion and a half deficit facing the Treasury and five billion and a half more coming due in two years, that you come with a different proposition than you would if

you were asking for two or three hundred millions immediately and the rest could be deferred?

Mr. BETTMAN. Oh, yes; of course, we appreciate that.

Senator McLEAN. That would be a staggering proposition if they all wanted cash and wanted it now.

Mr. BETTMAN. One answer to that is: Are they not entitled to it? We have not approached that question.

Senator McLEAN. That may all be true. I do not think there is any disposition on the part of any Member of Congress to minimize the obligation due the American Legion. It is a question of ways and means at this time; and if you could show to us that it was not required just now, you would be in a much stronger position with your bill.

Mr. BETTMAN. Probably so. But, even after such a poll, it would still be a matter of judgment as to how many are going to exercise the option for cash and how many for home aid or the land project or vocational training.

Those other features of the bill you must keep in mind also and provide for necessary funds from the Government; for example, the vocational training provides that the men taking vocational training will be paid \$1.75 a day. The insurance feature, Title 2, would call for the expenditure of governmental money, because as soon as a man dies his adjusted service certificate would be payable, and that would call for money. Now, how are you going to estimate that kind of thing with exactitude? The Senate Finance Committee must simply exercise its judgment as to how much money is going to be needed. Of course, help might be given, as you say, by such a poll, and such a poll might be taken. But the final decision and the final exercise of judgment is the good sense and best estimation of the Senate Finance Committee.

Senator SMOOT. For instance, under the adjusted-service certificate, a man whose adjusted service is \$500 has only to wait three years and he can borrow \$491.40 on it; and there is not any doubt but what he will do that. So we have got to make up our minds that we have to provide money to meet the cost under either plan.

Senator SIMMONS. If this information was obtainable, and was gathered by you and presented, and we should find too large a percentage were going to ask cash for us to pass the bill in a certain form, we might amend it by making the other schemes a little bit more acceptable, so as to attract some of the men who under the proposed bill would want cash.

Mr. BETTMAN. Of course, such a poll would be helpful; that is admitted.

Senator SMOOT. Senator, I think under this the 40 per cent granted is all the Government ought to do, because the Government has to meet the situation in the end, and the amount of money would be a great deal more in the end than if they took cash. As a business proposition, of course, you or anybody else would not offer an increase of 40 per cent. In five years they would have a borrowing privilege of more than \$500 in cash; so that is 8 per cent increase, dividing the 40 per cent into the five years.

Mr. BETTMAN. Of course, it is an obligation of the Government.

Senator SMOOT. Absolutely; and must be paid and must be met.

Mr. BETTMAN. Our poll would not be decisive of anything; it would really leave the question for the Senate Finance Committee to determine.

Senator McLEAN. No; but if it indicated almost a unanimous choice for the cash, I should hope that the representatives of the Legion themselves—I think I know how you would feel about it—and under all the circumstances it might be fair to the country and to the legion to eliminate entirely the cash bonus and to provide some other means that would possibly satisfy under all conditions.

Senator McCUMBER. I understand from your remarks that you are about to proceed to show the justice of the demand, even though it were cash?

Mr. BETTMAN. Yes.

Senator McCUMBER. And I want to ask you a question that properly preceded that, and that is why this differentiation is made between those who served in the United States and those who were, many of them, lucky enough to get abroad. I wrote to the War Department at one time to ascertain about how many of the American soldiers were actually engaged in battle and at the battle line, and I think the response was 250,000. Then all of the balance of them, if that statement is correct—my statement was written a year or so ago—were either in the United States or were on their way or were near the battle lines. But they were all very anxious and willing to get over; all of them performed their duties as soldiers; none of them would have stayed on this side if they could have gotten over at all; and some got as far as Great Britain, some got into France, and some got to the very battle line and took part in the battle.

Now, it strikes me that all should be treated alike, and I would like to see some real reason given why we should make a differentiation between them as against those who were so eager to go over and yet because of the sudden cessation of the war were unable to go across.

Mr. BETTMAN. I am glad you asked that question, Senator McCumber. The original bill as presented by the American Legion to the House Ways and Means Committee did not contain any differentiation. The men, I think, in the service realize that those fellows who found their way to the fighting line were the lucky men, and many men were compelled—some of the very best men in aviation, for example—compelled to remain in this country in order to train others, and to differentiate against them seemed quite unfair.

That differentiation was made by the Ways and Means Committee of the House, and the best information I had was that the reason they did it was because there was such a differentiation made in the Canadian adjusted compensation bill. That is all I ever heard on that subject as to why there should be that differentiation.

Senator McCUMBER. If the matter involved the decision of the individual himself as to whether he would serve in the United States or go where there was some fighting, I could see a reason for it. But inasmuch as it involves nothing of that kind it seems to me not to be quite fair to all of the veterans.

Mr. BETTMAN. It was not in the original bill of the Legion; it was put in there by the House Ways and Means Committee. Our information, however, to observe one suggestion, is that there were quite a number more men than you have stated who went across. The estimate we have is that there were 1,800,000.

Senator McCUMBER. My question to the department was, How many actually engaged in battle? And the response, as I remember now—I am only speaking from memory—was about 250,000. But that could be established very easily.

Mr. BETTMAN. Those parts of the plan which provide for what we have called the “productive channels,” it seems indisputable that no Senator or Congressman would deny to a man who had served in the Army assistance to the extent of \$1.25 a day for his service in buying a home; or in settling on the land, or improving his ability to earn his living by vocational training. It seems that those features of the bill, the advantage to the country in settling the men on the land or by getting them to be home owners, or engaging in vocational training, is so indisputable that surely the country performs not only its obligation to the ex-service men but benefits itself so much that, as to these features of the bill, the subject is scarcely debatable.

The only debatable feature, therefore, is this question of the adjusted compensation in cash. What is the basic justification for that?

These points will be expanded more by Mr. Galbraith, who will follow me.

You have to picture the situation at the time of the passage of the selective-service draft. One man was taken and told that he must go into the Army, and he served at \$1 a day; another man, by the operations of the selective-service law, remained in this country and he was getting, maybe, in civilian life \$2.50 a day, and his pay went up during the war from \$4 to \$5, or \$6 or \$7 a day, whereas the man who went into the service got his \$1 or \$1.25 a day for overseas service. There was inequality in that. In this country we did not draft labor; we paid labor the war-panic prices. There was a draft of the men for military service, but not a draft for the men for civil service; and maybe that was the best thing to do at the time; maybe nothing else could have been done. But by doing that there was a basic inequality which this adjusted compensation is an attempt to correct. It is not an entire correction; it is a partial correction of that injustice of making one man serve at a dollar a day, whereas the man who was not in the service got \$5, \$6, or \$7 a day.

Senator McCUMBER. The members of the committee now have to go on the Senate floor, and the committee will stand adjourned until 10.30 o'clock to-morrow morning, when we will meet in this room.

(Thereupon, at 11.58 o'clock a. m., the committee adjourned to meet to-morrow, Thursday, December 16, 1920, at 10.30 o'clock a. m.)





# **SOLDIERS' ADJUSTED COMPENSATION**

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## **HEARINGS**

BEFORE THE

### **COMMITTEE ON FINANCE UNITED STATES SENATE**

SIXTY-SIXTH CONGRESS

THIRD SESSION

ON

## **H. R. 14157**

A BILL TO PROVIDE ADJUSTED COMPENSATION FOR VETERANS  
OF THE WORLD WAR; TO PROVIDE REVENUE THEREFOR;  
AND FOR OTHER PURPOSES

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THURSDAY, DECEMBER 16, 1920

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## **PART 2**



WASHINGTON  
GOVERNMENT PRINTING OFFICE

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## SOLDIERS' ADJUSTED COMPENSATION.

THURSDAY, DECEMBER 16, 1920.

UNITED STATES SENATE,  
COMMITTEE ON FINANCE,  
*Washington, D. C.*

The committee met, pursuant to adjournment, in the committee room in the Capitol at 10.30 o'clock a. m., Senator Porter J. McCumber (acting chairman) presiding.

Present: Senators McCumber, Smoot, La Follette, Dillingham, McLean, Curtis, Watson, Calder, Watson, Sutherland, Simmons, and Nugent.

Senator McCUMBER. You may proceed.

Mr. TAYLOR. At adjournment yesterday Mr. Bettman was speaking to you, and he will resume at this time.

### STATEMENT OF MR. GILBERT BETTMAN—Resumed.

Mr. BETTMAN. Gentlemen of the committee, I was just about to close yesterday and will take very little of your time this morning. Indeed, I feel if I do not clear the floor soon that I shall be court-martialed by our national commander.

I was trying to say at the close of the hearings yesterday what we conceive to be the justification for this bill which has been passed by the House. As we see it, it is not a bounty; it is not the kind of thing that was done at the Civil War period in order to get men into the Army; it is not a bonus in the sense of a gratuity for military service. It is just exactly what the bill called it, which is an adjustment of compensation. That is not an empty word.

Senator McLEAN. It is equalization?

Mr. BETTMAN. It is an equalization of the economic disadvantage which resulted from the operations of the selective service law, which was occasioned from the fact that we said to one young man in the country, "You go into the service and stay at \$1 a day"; and to another young man, "You are permitted to stay here and make \$5 or \$6 or \$7 a day during the war period." It is to correct that economic situation—that economic disadvantage—that this law is proposed.

Senator McCUMBER. Will you, after making allowance for food and clothing, doctors' bills, and other matters which the soldier received, etc., give us a statement that will show just what the average amount would be for a soldier per day compared with the average amount that was received by the civilian employed in ordinary work in the United States?

Mr. BETTMAN. Well, I think the best line on that is these estimates that have been given about the increase in savings departments; the average was from \$200 to \$400, we are advised, during that period.

Senator McCUMBER. I did not know but what you had made up a statement, probably, inasmuch as you made that the basis of the request at this time, and that that table would just show what the equivalent would be between the two classes.

Mr. BETTMAN. Oh, I do not think such a table has been prepared, because it would vary from one end of the country to the other; it would vary from the individuals who have gotten as high as \$10 a day in the shipyards to the man who made probably \$4 a day in other kinds of labor in other parts of the country. I do not think any such table has been prepared; and this, Senator McCumber, is only an approximation at an adjustment of compensation. It is not adequate; it is not complete; it is just approximate.

Senator McCUMBER. I was just asking you to see if you had any definite information upon that subject.

Mr. BETTMAN. No; a table has not been prepared which meets that situation.

Senator McCUMBER. Very well.

Mr. BETTMAN. There is nothing novel in the suggestion, either, gentlemen. Other nations have passed measures. Our allies have given an adjustment of compensation. The range in Canada, for example, is from \$600 for a private to \$4,658 for a major general. In Great Britain it is from \$140 for a private to \$7,290 for a major general. And even France, with her colossal debt of \$40,000,000,000, has given an adjustment of compensation of \$233.58 to a private.

Senator McLEAN. Is not the Canadian system somewhat similar to the one proposed here? Do you know what percentage of men in Canada took cash?

Mr. BETTMAN. I do not know that that has been tabulated.

Senator McLEAN. I have been informed it is 90 per cent.

Mr. BETTMAN. With regard to that question, I just want to make this observation: As to the question of just how much it will cost in any particular year, I want to call your attention to the fact that it is really a question of policy to be determined; it is impossible in advance to determine just what the expense to the Government will be each year as this policy is being carried out.

There is nothing novel about that in governmental legislation. When you passed the war-risk act in October, 1917, providing for insurance and compensation and allowance and allotments you did not know how many men would draw an allowance from the Government; you did not know then exactly how many men would draw compensation, whether it would be 10,000 men or 100,000 men; you did not know whether the men were going to be insured to the extent of 50 per cent of them or 75 per cent of them or 100 per cent of them. You determined the policy for the Army under that bill, and as the years went on you have given the necessary appropriations to carry out that policy.

Senator SMOOT. We did know, however, that they would not all be killed; we did know that they would not all die.

Mr. BETTMAN. Yes. But that knowledge would not be very helpful. I mean, it was not accurate, Senator; it would not tell you how

much it would cost to pay the compensation; that was dependent entirely upon future events.

Senator WATSON. Mr. Bettman, under these various sections, how many will be cut—everybody above captain? All those while wearing uniform filled civilian positions in the United States and drew wages? Do you know how many that is in actual numbers?

Mr. BETTMAN. No; I do not think there has been a tabulation of what that would be. There is this question, Senator Watson: How many men are going to apply? There are a great many men who will not apply for any adjustment of their compensation. The exact number only the future can determine.

There was a discharge bonus, and the War Department will advise you that only 1,000,000 men have applied for that discharge bonus. The exact number who got that \$60 payment upon discharge to enable them to buy civilian clothes, etc., has never been determined by the War Department. But the applications, out of 4,000,000 men in the Army, amounted to only 1,000,000 men who applied for that. There is no way absolutely to determine in advance how many men will apply, and this adjustment of compensation is payable only upon application.

Every time the question has come up, if the committee please, to a vote of the people in any kind of shape, the result has been favorable. There are 29 States, I believe, that have soldiers' settlement boards, and those States are waiting and anxious for the National Government to pass a law in order that the State governments may cooperate in settling the men upon the farms. Every time the question has come up the people have voted in favor of giving this kind of aid to the service men; not a State has voted it down. Twelve States have voted already in favor of giving aid to the ex-service men. So there is nothing novel about it, and when it has been put up to the people they have approved it. When it was put up to the popular house of Congress it was approved by a vote of 298 to 92; and when it was put up to the American Legion, which we believe and we know is a very fair crosscut of the American social fabric, with every kind of view represented, the bill was approved with unanimity.

Senator CALDER. These votes in the several States was whether the States should pay bonuses, were they not?

Mr. BETTMAN. I am saying that when the policy of aiding the service men was put up to the people every time it has met with approval.

Senator CALDER. What was that vote in New York?

Mr. BETTMAN. The vote there was two to one in favor.

Senator WATSON. Has the legislature in New York voted upon it?

Senator CALDER. The legislature submitted it to the people by way of referendum.

Senator WATSON. I know that, but no action has been taken by the legislature?

Senator CALDER. No; but the particular bonus scheme was submitted.

Senator CURTIS. I want to ask you a word about the land-settlement proposition. As I understand it, from what you said yesterday the project is to settle the ex-service men upon the lands in the West mainly. In the West the available land is mostly irrigated, and in



the South the lands are cut over, timber, and swamp. Have you considered the number of people you have in the organization or who served overseas who would be fitted to develop farms in those parts of the country where irrigation is necessary or on cut-over lands and swamp lands?

Mr. BETTMAN. Half the men in the Army were farmer boys—those are the figures.

Senator CURTIS. I know, but you take a farmer from Kansas, Oklahoma, and Nebraska and he is not very well fitted to go on an irrigated farm and he is not very well adapted to the cut-over lands and the swamp lands in the South and under conditions like those.

Mr. BETTMAN. The land part of this bill, of course, Senator Curtis, does not apply to any particular area only. Wherever the Government feels it will be feasible to establish a land project and settle the service men upon the land, either in the South, in the West, or in some of the older States—and there are settlement boards in Delaware, for example, and the little State of Delaware has appropriated \$25,000 for its land-settlement board to settle the ex-service men upon the land. It does not apply to any particular locality in the United States.

Senator CURTIS. I appreciate that. But you said yesterday that the land question was chiefly confined to the West, and I know something about the efforts made in the Southern States. When the bill was up in the House the argument in regard to lands was nearly all from the South and Northwest—irrigation and cut over. I have got a kind of a notion that you are not going to get many people outside of those various sections to take up that kind of land.

Senator SIMMONS. Those swamp lands are not bought-up lands.

Senator CURTIS. I know they are not. You have organizations who have bought up the land or controlled it, and that is ready to sell to the Government.

Senator McCUMBER. I think the witness has stated that these soldiers will, for the most part, exercise good judgment, which will eliminate, for the most part, the whole land question.

Mr. BETTMAN. That is the way some feel just at the present time about farming, but I do not think farming is going to come to an end in America; I think the farmers will weather the present storm.

Senator McCUMBER. They will undoubtedly get through.

Senator SIMMONS. They will have a hard time doing it.

Senator NUGENT. For your information, I wish to say that in the administration of the Carey Land Act in the western country, with which I am familiar, the lands were settled by people from other sections of the Union, and men who were accustomed to farming, generally speaking, have had but little difficulty in learning how to farm properly on irrigation projects in the West.

Senator CURTIS. We have had quite a number of farmers in our State who have had to come back from your State after an unsuccessful attempt there, too.

Mr. BETTMAN. We must keep in mind, too, that at the end of the Civil War the men who served were given a right to enter upon 160 acres, and we want to do everything now we can to encourage settlement upon land.

Senator CURTIS. I want them to go on farms, too. But what I want to know is, have you an idea about how many are going on

these farms, because I do not think you are going to have a great demand in that direction.

Mr. BETTMAN. There seems to be a great demand.

Senator CURTIS. I have had three letters since this whole question has been up, asking about land.

Mr. BETTMAN. I think your argument, Senator Curtis, goes to show the wisdom of this bill, in that it contains five options, because the land will not fill the entire need. Therefore there is the home-aid provision, there is also the vocational-training aid, and the cash provision, because we had to make a bill which would fit the needs of the entire country. Some men in the western region who have gotten familiar with irrigation, you say, will exercise that option. Another man who has dependents and lives in the city will probably exercise the insurance option; other men who want to build a little home will take their adjustment of compensation in that form, while others will take it in the cash form; and I think the argument shows the wisdom of the scope of the bill in not confining it just to one option, but giving these 4,000,000 men who are under different conditions and who have different tastes and different aspirations in life an opportunity to exercise their judgment as to what method of adjusted compensation will, under this bill, fit their particular needs.

Senator SIMMONS. I want to ask you one question, Mr. Bettman: In the South, where I live, I have heard it stated frequently that the ex-service men who left the farms when they entered the service have stayed away from the farm when they came back. I want to ask you if your experience, observation, and information leads you to believe that that condition on the part of ex-service men coming back is general throughout the country as it is said to be in some Southern States?

Mr. BETTMAN. I do not think I have any special knowledge on that. That is rather a question of economic conditions. I think that results, if it is true—

Senator SIMMONS (interposing). It is pertinent to the question you have been discussing.

Mr. BETTMAN. As I say, I have no special knowledge on it. It seems to me like a result of the fact that there were very high wages prevailing in the cities and the farm was not so attractive. But there is a flux and reflux on questions of that kind, and surely the country is going to adjust itself. We know that wages in the cities are lower now, and farm life will seem more attractive.

Senator SIMMONS. Do you think it was a difference in wages?

Mr. BETTMAN. I think that was what it was. That is what economists generally ascribe it to.

Senator SIMMONS. Farm wages have been mighty high in the South this year and last year—as much as \$4 a day.

Senator SMOOT. Four a day? We have had to pay \$7 and \$8 and \$9 a day in my State.

Mr. BETTMAN. You have been paying some wages.

Senator SIMMONS. Four dollars a day wages on a farm is considered mighty high in my country; they never reached that level before.

Mr. BETTMAN. Just a word in conclusion, and I will finish. The United States, it seems to me, started out on a great policy of what

might be called international altruism. We are now up against the extent of that international altruism project, and I know the Senate Finance Committee is wrestling with the problem of meeting the expense of that. I simply want to add this observation: It is not fair now to saddle the expense of that adventure upon the service men and make them not only fight the battle which made that adventure a success, and at the same time bear also the load resulting from the economic disadvantage which came from the fact that they entered the service of their Government. Though we may all believe in a policy of entrenchment, let us not retrench at the very time that the men who have come back and gotten back into civil life are asking for an equitable readjustment of the economic laws; and let us not put the entire burden of our adventure in international altruism upon the men in the service who with-held the Nation's cause and made that adventure a success.

Senator McCUMBER. I would like to ask you a question, after presenting a matter, before you take your seat. An examination of the present financial situation of the country shows that there are outstanding certificates of \$700,000,000 that mature December 15; there are semiannual interest on first Liberty and Victory bonds of \$140,000,000; there are outstanding certificates maturing January 3 to January 15, 1921, of \$300,000,000. The December tax installment probably will bring us in \$650,000,000—not to exceed that; and we had \$160,000,000 in the Treasury on December 6, 1920. Now, the deficit, with the \$250,000,000 required in the Treasury on January 1st, including the estimate of \$650,000,000 for railways, \$1,230,000,000, and other deficits, probably will bring it up to at least \$1,250,000,000.

Now, the report shows also the estimated deficit, continuing matters as they are now and with our present tax will be \$2,500,000,000 on June 30, 1921; and for June 30, 1922, an estimated deficit of \$1,000,000,000 and about \$500,000,000.

I am putting this question to you to answer and for such discussion as you want to make. If the conclusion is that it is impossible under present conditions of the Treasury to float the necessary bonds to meet this additional demand, and if the American Legion felt sure that legislation of the character you ask would be passed just as soon as conditions permitted it, would there be objection on the part of the Legion to postponing this legislation for a brief period; or, in lieu of that, to have the act take effect, say, January 1, 1922, or January 1, 1923, so that it could be made certain by the time or beginning this extra amount would be sufficiently far ahead to allow Congress and the Treasury to take care of the present deficits. I would like your idea along that line.

Mr. BETTMAN. First, upon that question, Senator McCumber, while we do not desire to avoid or sidestep, we do want to make this observation: We are here to present the question of the validity of the claim. How the debtor should pay the claim, when he should begin to pay the claim, out of what assets he should pay the claim, under what method of taxation he should meet this obligation—that is not for the American Legion to advise upon; that is for the Ways and Means Committee of the House, which has spoken, and for the Senate Finance Committee to finally determine upon. Our judg-

ment, our opinions on that question are utterly valueless as compared with the opinions and judgment of any member of the Senate Finance Committee. Therefore, we do not feel that we could be of assistance, and we do not desire to be drawn into a discussion of what method of taxation or what method the Senate should adopt to meet the obligation. We are here to establish the validity of the claim.

Senator McLEAN. Your bill provides for methods of raising the money?

Mr. BETTMAN. Not our bill. That method was determined not by our Legion but by the Ways and Means Committee. When this bill was presented they tacked onto the bill the ways of meeting that necessary payment.

Senator McLEAN. That, as I understand it, was with the approval of the representatives of the Legion.

Mr. BETTMAN. The bill was reported out and passed by the House, and we approved that method and will defend that method, Senator. Some of the Congressmen asked us "If we determine upon a definite method of taxation to meet this claim, will you defend in the public arena this method of taxation?" We said we would, and we will; and if the Senate Finance Committee determines upon any method of meeting this obligation as we have presented it and claim it is valid, we, of course, will defend the action of the Senate in saying that that is the method of taxation or that is the method of financial adjustment which is necessary to meet this claim.

Senator McCUMBER. I think your reply is a very fair one, and I know that the committee wants to do the very best it possibly can in the situation, and wants to make just compensation. But when and just how we can do it is a matter that, of course, you say, the committee must determine.

Senator LA FOLLETTE. Did I understand you to say, in answering that question, to mean that if this committee puts off doing anything for the soldiers for two or three or four years you will go out and defend it before the American people?

Mr. BETTMAN. I did not say that.

Senator LA FOLLETTE. I did not want any misunderstanding in the record.

Mr. BETTMAN. I do not mean that.

Senator McCUMBER. That was not included, either, in the question?

Mr. BETTMAN. No. Thank you very much, gentlemen of the committee.

Mr. TAYLOR. Mr. Chairman, I now desire to present Mr. F. W. Galbraith, the national commander of the American Legion.

**STATEMENT OF MR. FREDERICK W. GALBRAITH, Jr., NATIONAL COMMANDER AMERICAN LEGION, INDIANAPOLIS, IND.**

Senator McCUMBER. Mr. Galbraith, the committee will be very glad to hear from you.

Mr. GALBRAITH. Mr. Chairman and gentlemen of the committee, you have heard Mr. Bettman, who has ably covered the situation, and with your permission I would like to present to you the situation

as it existed at the time of the declaration of war, with the voluntary system for raising an army which was then in effect, and which produced, because of its being an unsound system, only a small number of men.

When the Congress of the United States adopted the selective service act, it performed a great service to the Nation, and those of us who were in the service recognize that that was the way, and the only way, in which a national army for national defense could have been raised.

In the operation of this law men were registered from all parts of the Nation. They were peaceful men, men untrained, men inexperienced in war; and yet with blind unreasoning confidence in their Government, when their names were drawn, in the great majority of cases, they responded to the call, realizing that it was their duty to enter the military service. They were mobilized in camps from the hills, from the farms, from the factories, from all parts of the Nation; and like the good Americans that they were, they entered upon a new and strange life. They were put into a uniform; they were drilled; they went to bed by a bugle, they got up by a bugle. Their life was not ordered as it had been. And yet in spite of that, gentlemen, these men enthusiastically entered upon the making of a soldier. The net result was that they were trained, equipped, and entered the service in a very short time, in the shortest space of time that it takes to make real soldiers—the American was the man who was made into a soldier in the shortest time.

In the meantime, what was the situation with his mates? He did not ask to enter the service, but he did it willingly. The man who sat beside him at the bench, or labored with him on the farm had an opportunity as the war developed. If he did not like the work in which he was engaged or if he could make more money in any other kind of work, he entered upon that. In other words, he had an opportunity to choose as to what he should do, while the man who entered the service was chosen for a particular thing.

It seems to us that that man did not love his home life, his future in business, his family less. But that he simply was answering the call and answered it enthusiastically and willingly, and was made into a soldier as I have stated.

The man who stayed at home, who was in exactly the same fix as he, so far as his age was concerned, perhaps claimed exemption; he had a right to do that. There were other industries at home which must have gone out of existence had it not been for him. As Mr. Bettman said yesterday, we recognize the fact that those who were not in uniform were just as much entitled to the grateful praise of the Nation as those who served, if they were doing the constructive work, which most of the citizens did.

But the opportunity for one was as a soldier, under discipline the rigors and the hardships of either the camp or the battlefield; and it does not make any difference to those of us who were in the service in the American Legion particularly, as to whether a man served in the camps in this country or whether he served upon one of the battle fronts. They are all the same kind of citizens. They were all willing to go where they were ordered to go, and the man who was fortunate enough to get into the scrap considers himself fortunate.

and the men who were back here felt they were out of luck, and justly so. They had just as hard a time; the work was hard, without the inspiration of the opportunity to come to grips with the enemy.

These men in the industries had an opportunity. They took advantage of it, as they should have taken advantage of it. The wages, say \$2.50 a day or \$3 a day when men were drafted, steadily rose until the man who remained at home—and, mind you, who had his own bed, and his own board, and his own family, his amusements, and his opportunities without any danger whatsoever—went upward, whereas the man in uniform as a private received \$30 a month. He received \$30 as a basic pay. Now, how much did he actually get? When the war risk act was passed and went into effect, I doubt if 10 per cent of the men in the Army wanted any insurance; they did not know anything about insurance. But, gentlemen—and it is very illuminating—those men were educated in every camp in the United States and also overseas in the matter of insurance until in my regiment we had no men who were not insured. In other words, we put on in every camp in the United States, under the direction of the Government, a campaign to sell insurance to these men, because it was good for them. It was an education; and we contend that in this particular bill which is before us the service man is ready to be educated to the more productive features of the bill than the cash bonus alone.

Senator WATSON. Have you any idea how many of those who took insurance have kept it up?

Mr. GALBRAITH. Most of them, Senator Watson, dropped it when they came back. Now, there has been a campaign on for reinstatement of insurance. The American Legion has been particularly active in urging these men to reinstate their insurance. I have not the figures, but it is remarkable how many men have reinstated their insurance after having dropped it.

Senator SMOOT. We have appropriated large sums of money for the War Risk Bureau to make this propaganda, and I think there are less than 800,000 men now carrying insurance by the Government.

Mr. GALBRAITH. I have not the figures.

Senator SMOOT. I have not the figures for the last six months. I do know what they were before that time.

Mr. GALBRAITH. Col. Jones told me recently that he was very well satisfied with the results they were getting, and that it was growing slowly but surely; and the Legion has been of great assistance in that direction, because in our posts we have urged these men to again take up their insurance.

It is not to be believed that these men should have been penalized, and it was not the intention of the Government to penalize them. Men had to be drafted for the Army, and these men were selected.

Senator NUGENT. You stated a moment ago that \$30 a month was the basic pay for the soldier?

Mr. GALBRAITH. Yes, sir.

Senator NUGENT. But, as a matter of fact, he did not receive that sum, because of certain deductions mentioned; among others, the amount he was obliged to pay as premium on insurance?

Mr. GALBRAITH. Yes, sir.

Senator NUGENT. What was that, and what other sums were deducted from his pay?

**Mr. GALBRAITH.** The average amount that a man paid for insurance was in the vicinity of \$7 a month, which was deducted from his pay. Then, if a man had dependents, he made an allotment of \$15. It is true that the Government matched that with another like sum for his dependents. Then came the question of Liberty bonds, and it is a proud record that the American Army had on the question of subscriptions to Liberty bonds. These men were interested; they wanted to contribute, not as a savings proposition, gentlemen of the committee: it was not that: it was the fact that it was their war, and they wanted to serve and they wanted to put some of their money, as much of it as they could, into the Government—until it reached a point where an order was issued that a man should not take insurance, allotments, and Liberty bond payments from his pay, leaving him less than \$5 a month. So that the real money that these men received—it is true that the allotment went to his family, as it should have done—those are desirable things—and his subscriptions for his Liberty bond. But these men did not have available sufficient funds for their actual needs. The spirit was there: they wanted to cooperate in every possible way for the consummation of this war.

**Senator SMOOT.** Do you remember the amount that it cost the Government over and above what the insurance policies covered, that were spoken of by the Senator from Idaho as having been deducted?

**Mr. GALBRAITH.** No, sir; it was supposed to be the actual cost.

**Senator SMOOT.** No; but I mean the actual cost to the Government for the soldiers that were killed; and the \$10,000 paid to the beneficiaries.

**Mr. GALBRAITH.** No; I have not that information.

**Senator SMOOT.** I think it is about a billion dollars.

**Senator McCUMBER.** Is it not true, also, that the soldiers in every company were almost compelled to buy Liberty bonds under a system by which each company was put in competition with every other company to raise its quota, and that necessitated the payment of an amount far beyond the means of the soldier to pay?

**Mr. GALBRAITH.** Senator McCumber, in answering that, I think not, sir. We urged these men and brought every argument to bear upon them in the insurance matter and in the purchase of Liberty bonds: and the 90 per cent or more—it is a larger proportion than that, in my opinion—bought the Liberty bonds because they believed it was the thing which they should do as an evidence to the country that they were not only soldiers but that they were real patriots.

**Senator SMOOT.** There is a propaganda now to have them all changed and pay the amount of insurance in a lump sum instead of by monthly payments for 20 years. Has the American Legion taken any action upon that?

**Mr. GALBRAITH.** The law as it stands now provides that you may convert your insurance, and that in the meantime there is no lump-sum payment on the old line or old form.

**Senator SMOOT.** I am speaking now of the old form of insurance and those who are entitled to the monthly payments.

**Mr. GALBRAITH.** We believe that a lump-sum payment is extremely desirable. It is a question of cost.

**Senator SMOOT.** Do you know what that will require the Government to raise?

Mr. GALBRAITH. I say, sir, it is a question of cost, Senator Smoot; and the soldier is not coming constantly before the public demanding something from his Government for himself because of his service or because of his needs.

Senator SMOOT. I think history has proven in the past that there are only 8 per cent of the beneficiaries to whom insurance is paid in a lump sum who have a dollar of it at the end of five years.

Senator WATSON. What would that lump-sum payment cost?

Senator SMOOT. Oh, it would run above a billion.

Senator WATSON. You do not know how much?

Senator SMOOT. I do not remember. But the object of the passing of the law and making those monthly payments for 20 years was that the beneficiaries should at least have the amount of \$57.50 per month for which the law provides, and that they could not expend it all at once. The Government wanted for at least 20 years to provide in part for their keep.

Mr. GALBRAITH. Yes, sir.

Senator SMOOT. And I think that is the very best policy to follow; but I wanted to know what you people desired in the matter.

Mr. GALBRAITH. The protection of the widow's mite certainly has been covered in this bill.

Senator SMOOT. But if we follow your desires in the matter, we would make a lump-sum payment; and if that were the case it would be spent in five or six years and 92 per cent of them would not have a dollar left to their name.

Mr. GALBRAITH. That may be the experience in the past, and it may be the experience in the future.

Senator SMOOT. It certainly has been in the past, and I have not any doubt in the world but what it would be just as heavy as that in the future.

Mr. GALBRAITH. In this matter we have made no request nor any suggestion. We believe in the protection of the dependents of these people who died.

Senator SMOOT. The reason I asked that question is because whenever the bill has been up before the subcommittee of this Senate committee the request has been made from so many sources that they want the lump-sum payments, and the committee has taken the position that it is not the best policy to pursue; and in many cases we have been told that the American Legion has taken action on it and that they were in favor of the idea that all insurance should be paid to the beneficiaries in a lump sum.

Mr. GALBRAITH. We believe that, as a fundamental principle, neither those who entered the service nor their dependents should suffer economic prejudice by reason of their military service. It is true that whether it could have been remedied is not for me to determine or touch upon, but it is true that they have suffered that economic prejudice, and it is the object of this bill to permit them to have some readjustment of that prejudice in this compensation bill. Mr. Bettman has told you what other countries have done. Other countries have done that in spite of the fact that their national debt, as compared to their national wealth, does not compare with our national debt in its relation to the national wealth of this country.

In speaking of the land settlement act, Canada has sent under its land settlement act, approximately 30,000 men under projects onto



new lands which have been opened up, and which are producing to-day the wealth of the nation and providing an opportunity for these service people to add to their usefulness and to their financial advantage.

Senator SMOOT. The Canadian land situation is about the same as our situation was immediately after the Civil War. We had lands then, which, as I stated, were worth while, and a man could go and make a home upon them. There are hundreds of millions of acres of land in Canada waiting for the hand of man to cultivate, and lands which men can go upon and make a living and a home at a moderate expense. But the lands that remain open for entry in the United States are lands which are very hard, indeed, to cultivate, and the expense of getting water upon them or draining the swamps or taking out the stumps of the cut-over land is a very expensive operation, indeed, for every acre reclaimed.

Mr. GALBRAITH. In reference to the land act, so far as the provisions of this bill are concerned, since the question was raised, it provides that the board is "authorized to establish veteran settlement projects for the reclamation and settlement of lands by means of irrigation, drainage, or other manner or method of development and improvement thereof, including the building of necessary public roads within the projects. Projects shall be selected by the board with a view to the development of one or more projects in each of the several States where the establishment of a project is feasible."

I am advised that in one project alone there were 3,000 applications for 300 opportunities from ex-service people; that the Department of the Interior has already received an excess of 300,000 inquiries concerning land settlement; and the bill puts into the hands of the board the provision that these may be established wherever it may be determined desirable. Then, in the other act, the home aid act, it provides for the purchase of detached farms, but not under the same terms and provisions that the money available under this bill may be paid over to the soldiers, to be used in the purchase of a detached farm, in his own State or wherever he may determine it desirable.

It is a question in the minds of the American Legion as to the number of men, just as it is in your mind, who will take the first option, which is for cash, the service certificate, or the other options. We have not the slightest idea. But we do believe that an educational campaign setting out the advantages of the more productive options will be just as effective as it was in the case of the men who bought insurance and Liberty bonds; and we are pledged to that, gentlemen—we are pledged to it because we desire each individual man to take the option which is best for him under his circumstances, and which is best at the same time for the Government.

The American Legion believes that neither those who entered the service, nor their dependents, should suffer economic prejudice by reason of their military service. I repeat that because it is fundamental. We believe that the man who is put in the position of owning a home, a farm, or who buys an interest in a small or large business with the money which he gets under this bill, or who receives vocational training as contemplated under the bill, will become an even greater asset to the country and a better citizen than he was

during the war, and if he is a better citizen than he was during the war, gentlemen, we believe that he is the kind of a citizen whose equal does not stand under the sun. He was a good citizen during the war; he did everything that any man could be expected to do. He carried your banner high, and he did not do it for money; he did it because in his heart was the desire to serve. This man because of that service—and he is proud of the service, he is proud of it to-day—if he had it to do again he would do the same thing. But because he did that, because the burning desire in his heart to see the banner of his Nation carried forward and the torch held high, because he did that is not any reason now why we should say he is not the kind of citizen that he was then.

Gentlemen, we have heard arguments—not from this committee, thank God—but from men who are opposed to our interest and who do not understand why they oppose an adjustment of the compensation for these men. We have heard them say, "These men will spend it for automobiles or for this or that or the other thing. They need a guardian." They do not need a guardian; they did not need a guardian when they were in the camps or in the service of their country in battle, and they do not need a guardian now. All they need, gentlemen, is an opportunity to make themselves more useful to the Nation than they now are. We believe that the fundamentals of this bill are perfectly sound. We believe that the man views it as an attempt to equalize something. You never can equalize it; they do not expect it. They want the aid, the help, and they want it, gentlemen, in the best way, and they want it as soon as in the judgment of the Congress of the United States it can be granted to them.

As to what the people of the United States think on the question, the very first day they considered the question, either through the legislative body or by referendum to the people, they agreed to it. There are 12 States now in which there is a State compensation act. Connecticut passed the act. It was vetoed by the governor on the ground, as I understand it, that the legislature had no right to consider the question at that time. So that it is perfectly apparent to us that where a referendum has been held or where the legislature meets and considers it and passes it and approves it they believe there is some reasonable justice in the particular principle which is involved.

We are here to present the case, to establish the validity of the claim. We want you to get back again in your mind's eye, as is in your hearts, what these men were and what they now are. And in concluding may I say just one word as to a situation which exists now and which is doing incalculable harm to the future of our Nation, and which is indicative to some people of the forgetfulness of our Government and of our people, and that is the case of the man who is paying with his blood to-day in the hospitals of the United States, the disabled man, the real hero of this World War? Gentlemen, we by act of Congress provided certain things. The administration of those particular things, because of the tremendous magnitude of them, has gone astray. These men are lying in hospitals, twenty-odd thousand of them. What kind of hospitals? That is for you gentlemen to consider when we have presented you with the facts, as we shall do. Many thousands are outside of hospitals, and

those men feel, gentlemen, that there is not the desire, the intent to care for them as we pledged our holy honor we would do as a pension when they went to war. Even the dependents of those men in many, many instances—I would say thousands of instances—are not being cared for.

Senator DILLINGHAM. Where is the fault?

Mr. GALBRAITH. The fault, sir, is with the present lack of centralized authority in the various bureaus.

Senator WATSON. Is it because of a lack of money, Colonel—the lack of appropriations?

Mr. GALBRAITH. No, sir; it is not lack of appropriations. The Congress of the United States has done everything it could do.

Senator WATSON. That is our understanding about it.

Mr. GALBRAITH. Yes, sir; but it is a condition, and that is one of the things which is in the minds of so many people who have an idea that all of this has been provided; whereas in reality it has not been done, and they feel bitter.

Senator McCUMBER. The whole thing is because of inefficiency in the administration?

Mr. GALBRAITH. Yes, sir; and the lack of centralization. There is no centralization of effort and decentralization of operation. It is a case of one and one and one makes three; but it is not three in one.

Senator SMOOT. That was my object in trying to abolish the War Risk Bureau, if they did not make the reforms, and place it in some of the departments where the soldier boys could get information from.

Mr. GALBRAITH. If the bill which has been introduced—the Capper bill—is passed by the Senate, and the Rogers bill by the House, the American Legion believes it has got it then exactly where it can be properly administered. There must be some one who is responsible; there can not be a hydraheaded organization which says, "It is your fault" and in the meantime the poor devil who is paying and paying with his blood stands in the middle and receives nothing but the brunt of the quarrel.

Senator WATSON. Of course, that situation has no relation to this adjusted compensation bill?

Mr. GALBRAITH. No, sir. The reason I mentioned it is this, there is a feeling in the minds of many people who are familiar with it that there is not the interest there should be. The American Legion knows that the Congress of the United States has this close to its heart, but because of the multitudinous things which come before it, and the order of the Congress that these things shall be cared for, it is presumed they will be cared for.

Senator CURTIS. The committee at the last session having charge of these appropriations—the appropriations estimated for—called the officials before them and pointed out many of these defects in the administration, and urged them to rectify them as fast as possible, so that these men could be cared for as well as their families. We all realize from the reports which we get that there has been great negligence.

Mr. GALBRAITH. Thank you, very much.

Senator SIMMONS. Colonel, let me ask you one question. As a commercial proposition, have these service certificates that your plan provides for a cash value in the market?

Mr. GALBRAITH. Yes, sir; after the third year.

Senator SIMMONS. Have you estimated what that cash value would be compared with the cash-pay proposition?

Mr. GALBRAITH. It is provided that they may borrow 90 per cent, sir, after the third year, and after the fifth year—

Senator SIMMONS (interposing). I am not speaking about their borrowing from the Government; I am speaking about the sale of the certificate in the open market. Would it have a cash value as a commercial asset?

Mr. GALBRAITH. That certificate is not to be sold, if I understand it correctly.

Senator SMOOT. It is not transferable.

Mr. GALBRAITH. It is not transferable.

Senator SMOOT. But I will say to the Senator, having received \$500 for service, during the third year he can borrow from the Government of the United States \$491.40, and the Government will have to provide the money to loan it to him.

Senator SIMMONS. The point I had in mind was if the soldier desired—of course, he could not do it under the provisions of this bill, but the bill could be amended in that particular—if he wanted to get the cash, would it have a cash value on the market after removing the restriction in the bill, and would it have a salable value in the markets of the country?

Mr. GALBRAITH. In the market, if all the restrictions were removed?

Senator SIMMONS. Yes.

Mr. GALBRAITH. Then I presume it would.

Senator SIMMONS. What would that value be as compared with the cash payment?

Mr. GALBRAITH. It would be unwise. The provision of the service certificate is to provide that it shall be a Government obligation at the end of 20 years, compounded at  $4\frac{1}{2}$  per cent interest.

Senator SMOOT. The answer would be whatever the loan value was at the time it was offered?

Mr. GALBRAITH. Yes, sir.

Senator SMOOT. And there is no need of any further provisions, because the bill provides now that the Government itself will loan the money?

Senator SIMMONS. After three years.

Senator SMOOT. And the bill provides just what that will be; or, in other words, the man who gets an adjusted service certificate for \$500 for home service—for overseas it is more—but for home service, if he carries that until the expiration of 16 years, all he has got to do is to come to the Government of the United States and say, "I want to borrow \$1,083.75 on this certificate."

Senator SIMMONS. At the end of three years?

Senator SMOOT. No; at the end of 16 years.

Senator SIMMONS. But I understood you to say at the end of three years he could borrow.

Senator SMOOT. \$491.40; and at the end of 16 years he can borrow \$1,083.75 on his \$500 service certificate.

Senator SIMMONS. What is the reason? I have not considered it. I am asking for information. Why is it provided that that shall not

be transferable in the case of a service man holding it who is desirous of converting it into money?

Senator SMOOT. Senator, this is given here, and these privileges are given to the soldier, and if it were transferable to some other man that man has got to rely upon the death of the soldier.

Senator SIMMONS. The soldier can select cash payment if he wants to?

Mr. GALBRAITH. Yes, sir.

Senator SIMMONS. And if he select the other and afterwards changes his mind, why should he not have the privilege of disposing of it and converting it into cash?

Mr. GALBRAITH. Senator Simmons, he received 40 per cent increase at the time he selects to accept the service certificate; it is increased 40 per cent automatically.

Senator SIMMONS. But suppose he wants to convert it into money. Why should he not be permitted to do that? The Government would not be injured. That certificate in the hands of the holder, whoever he may be, would be an obligation of the Government, to be liquidated just as the bill provides, and as it would have to be liquidated in the hands of the soldier.

Mr. GALBRAITH. No, sir; because the Government would have penalized itself 40 per cent in favor of the man, because the initial amount is increased by 40 per cent.

Senator SIMMONS. The man would get the benefit of that 40 per cent when he sells it?

Mr. GALBRAITH. Yes, sir; but he can not sell it.

Senator SMOOT. If he could, it would be a new avenue for the money sharks.

Senator McCUMBER. It is now 20 minutes of 12, and there is present a representative of the World War Veterans who must leave to-day, and he asks that he may have his hearing at this time.

#### **TESTIMONY OF MR. CARL CALVIN, NATIONAL CHAIRMAN OF THE BOARD OF WORLD WAR VETERANS, WASHINGTON, D. C.**

Mr. CALVIN. Mr. Chairman and members of the Senate Finance Committee, I have been instructed by the national executive committee of the World War Veterans to appear before the Members of Congress and your committee to urge the adoption of the House bill 14157, which has been outlined to you by the American Legion and several other organizations.

I do not believe that any Member in Congress, whether in the House or in the Senate, questions the patriotism of the men who went into the service. I do not believe that any member of this committee questions the validity of the claim that the men who were in the service are entitled to an adjusted compensation. But there is one difference that exists between the Members of Congress at the present time and the officers and representatives of the different organizations, and that is whether or not the Government can afford to pay that money.

We are not in a position, and I am not an expert in finance and will not attempt to tell you how and where to raise the money. But there is one question occurs in my mind, and has occurred from time

to time as I have read the newspapers, and that is this: That the Government at the outbreak of the war found it was necessary to have human lives, and found it was also necessary to have means of production, such as factories and different industries and the railroads and everything that we have in this country as well as human beings in order to conduct its war, and we took over these industries, and we told the railroads and we told all the different industries, "You give all you can for your Government and we will guarantee to give you a certain return on your investment."

In other words, gentlemen, we have guaranteed to the owners of these various industries just what we should have guaranteed them—there is no question about that, because it was their property—we guaranteed to them a certain return on their investment, and the Government has kept its word, and even at the present time I find by reading the newspapers, and I believe the report is true that certain of our railroads are asking the Government to pay them a certain part of that charge which they have not yet received, and our Government is going to give them their just return, which they claim they have lost under Government control.

Gentlemen, as long as the Government seems at the present time willing, and it is justice that it should be willing, to repay those different industries which have lost through the operation of the war is it not just and fair that the Government at the present time should find some ways and means by which to repay those men who have offered not only their lives, but also their property while they went to war?

Cases have come to me time and time again. I will tell you of a particular case that came to my attention. A young man who had dependents but who wanted to go into the war and who did go into the war and because his dependents were accustomed to a higher standard of living than the ordinary person this young man had to draw upon his savings in order to keep his parents up. In other words, the \$15 a month which he had contributed as a part of his allotment and the \$15 a month which the Government added to his \$15, making \$30, was not sufficient for his father and mother to live upon. So it was necessary for him to draw upon his savings, and by the time he returned after the termination of the war and by the time he had adjusted himself into business again he found he had lost practically every penny of savings that he had had.

Certain industries have been found to be in the same condition. But the Government in the case of industries is not saying to those men who control those industries, "You wait until 1925," or, "You wait until 1930, and we shall pay you what you have lost." The Government says to them, "You have lost your money, and we shall find ways and means now in which to pay, so that you may not be the loser during this war." And even in the case of contracts, the cancellation of which because of the termination of the war caused certain losses to men who made the contracts with the Government, the Government has found it proper to adjust those claims, and it is proper that it did, so that the contractor may not be the loser.

Consequently, we feel that since our executives and our Congress have found it proper to pay those men now whatever they have lost in their property, that the Government should also find it proper to find now ways and means by which to raise the money in order to

pay those men who have offered not only property but also their lives; and it is upon this principle, gentlemen, that I ask your consideration of this bill, that the men be granted an adjustment bonus compensation and all the other features of this bill without delay.

Senator WATSON. Your organization then favors this bill.

Mr. CALVIN. Yes, sir.

Senator WATSON. You represent the World War Veterans?

Mr. CALVIN. Yes, sir.

Senator WATSON. About how many of the World War soldiers are in your organization?

Mr. CALVIN. About 250,000.

Senator WATSON. What is the total membership?

Mr. CALVIN. Two hundred and fifty thousand.

Senator WATSON. I know; but I am talking about the World War Veterans. Then you have the Spanish War Veterans also?

Mr. CALVIN. The Spanish War Veterans do not belong to our association.

Senator WATSON. They do not belong to your association?

Mr. CALVIN. No, sir; only men who have served in the World War.

Senator McCUMBER. That is a foreign war?

Mr. CALVIN. Yes, sir.

Senator SUTHERLAND. Do any of your men belong to more than one organization?

Mr. CALVIN. Yes, sir. One of our men, a gentleman upon whom you conferred the congressional medal of honor, who was here yesterday, is a member of our organization, of the executive committee, and also a member of the Veterans of Foreign Wars.

Senator LAFOLLETTE. Is that very general or is that an exceptional case; I mean, do many of your members belong to other organizations?

Mr. CALVIN. Some of our members who served overseas belong to the Veterans of Foreign Wars.

Senator LAFOLLETTE. About what percentage of them?

Mr. CALVIN. I could not tell that, Senator; I do not know.

Senator SUTHERLAND. Do some belong to the American Legion?

Mr. CALVIN. I presume a few of them do; I do not believe many of them do. Some of the American Legion are very excellent men, however.

Senator SUTHERLAND. There is no reason in your constitutional by-laws why they should not belong to several of these organizations?

Mr. CALVIN. Nothing at all. They can belong to any of them. I thank you, gentlemen.

Mr. TAYLOR. Some of the questions brought up here refer to the Watson bill; and some in regard to coordination refer to the Capper bill, which has just been introduced in the Senate; and those matters are given you fully in the report of the legislative committee, together with the adjusted compensation bill, on page 27. Might I distribute those to members of this committee?

Senator McCUMBER. Yes.

Mr. TAYLOR. And now I would like to call upon Mr. Robert G. Woodside, commander in chief, Veterans of Foreign Wars, Pittsburgh, Pa. He has to leave the city and he will just take a few minutes.

Senator McCUMBER. We will be glad to hear him now.

**STATEMENT OF MR. ROBERT G. WOODSIDE, COMMANDER IN CHIEF,  
VETERANS OF FOREIGN WARS, PITTSBURGH, PA.**

Mr. WOODSIDE. Mr. Chairman and gentlemen of the Finance Committee, it is not my purpose to go into the merits of the bill at this time, because the chairman of our national legislative committee, Mr. E. H. Hale, has given considerably more thought and study to the bill than I have been able to do. I am here merely to state that the organization which I represent is solidly back of the bill which is now before you, they having taken such action at the last national encampment which was held here in Washington, September 12 to 18.

Senator LA FOLLETTE. Please state the membership of your organization, approximately.

Mr. WOODSIDE. Our organization at the present time numbers between 500,000 and 1,000,000. I can not give you the exact figures. We have set 1,000,000 as our membership objective.

Senator LA FOLLETTE. Can you tell the committee about what percentage of that membership participated in the World War?

Mr. WOODSIDE. Yes, sir; at least 90 per cent of our membership at the present time are overseas men, men who have served in the A. E. F.

The thing that we would urge is immediate action of some kind on this bill. We want to see action. I have had the good fortune during the last year of traveling from one end of this country to the other, and I know that the sentiment, not only of my organization but of men who served during the World War, belonging to our own organization and men belonging to other organizations, is at least 90 per cent in favor of adjusted compensation of some kind.

Not long ago I had the privilege of leading what was called a "bonus parade" in New York City, October 16. The papers estimated at between 60,000 and 90,000. The division comprising the Veterans of Foreign Wars of the United States took two hours to pass the reviewing stand. The American Legion turned out in equal numbers, and there was one whole division.

I would estimate that there were from 10,000 to 20,000 men who belonged to no organization at all were marching in this parade to show what their attitude was toward the adjusted compensation.

All that we are asking for the men who served in this war is a square deal. We are not asking for charity. We are asking for a square deal. Of course, our organization stands on the bill as it is written, in so far as the distinction is made between men who served overseas and the men who served at home.

We feel that that is fair. I myself had the privilege of serving with the Regular Army civilians. We were kept overseas months after the armistice was signed. Many of the men who were in the A. E. F. did not get discharged until the fall or nearly the end of last year; consequently when they returned to their homes they found it impossible to get their old positions. Their old positions had been taken by somebody else, and they had to start at the bottom of the ladder. So that I feel that the bill, in so far as it makes this distinction, should stand; and our organization back the distinction in the adjusted compensation as between the overseas men and the men who served at home.



I have taken enough of your time now, gentlemen. I simply am here as the chief executive of our organization, to let you know what the attitude of our membership is toward this bill.

Senator McCUMBER. The committee is much obliged to you. We will now hear Mr. Lorenbein.

**STATEMENT OF MR. S. LORENBEIN, CHAIRMAN RANK AND FILE VETERANS' ASSOCIATION, 602 F STREET NW. WASHINGTON, D. C.**

Mr. LORENBEIN. This bill that is before your committee, H. R. 14157, which is approved by the American Legion and Veterans of Foreign Wars and other organizations, we wish to go on record as being opposed to. We find that a big majority of the service men, if they are to receive a bonus, prefer to receive it in a lump-sum payment, and they are also interested in where the money is to be raised.

Our organization is made up of men who served in the ranks and we exclude the officers. These men are more interested in receiving cash at this very time, because they are in need of the money, and if the payments are stretched over a period of two or three years, it would not materially benefit them; in fact, it would work a hardship, and they would have to be paying taxes while they are waiting for their small sum of \$50 every three months.

The bill that we are anxious to see passed would take up each plan separately, giving the men a chance to get an education and also secure a farm or home aid, and incorporate them all in one bill. If it is the desire of this committee we would just as soon see the bill contain adjusted service certificate and extend the period for the loan to five years, and give every man who was in the service, regardless of why he had served, the same treatment. As this bill is drawn up now it cuts out over half of the men who served, and they would not have an opportunity to secure an education or any farm aid or home settlement benefits.

I have noted in my trips throughout the country that the men will take advantage of an opportunity to receive an education. At the present time there are organizations, such as the Knights of Columbus, who have been running news items in the newspapers, saying that there is room for a certain number of students, 100 to 200; and the result has been that there were some 2,000 to 5,000 applications for those opportunities.

If this bill is passed in its present form, none of these men, such as the Students' Army Training Corps, or men who have served here in the city of Washington, or who were stationed where they were receiving commutation of rations would be barred from these benefits; also the men who served less than 60 days would lose the benefits of this bill.

Our organization is anxious to see some bill passed with constructive features which will be a benefit to the country and also the men, and which will not receive the opposition that this bill is going to receive from the big business interests of this country.

If it is the intention of this committee to recommend this bill for passage as drawn up, we would rather see you strike the cash payment out and merely make it adjusted service certificate, and we will

use our influence to get a separate bill passed for vocational training aid and farm and home aid and land settlement. This will give the Government five years before any payments will have to be made out of the Treasury, and then you will be giving these men a protection that they are not receiving now, as very few of them are carrying war risk insurance, and we are anxious to see these service men protected by carrying insurance. No doubt they will be very materially benefited by having their attention called to the wonderful benefits that the Government gave through this offer.

I am the originator of the bonus, and the first man in America to take it up, and have been continuously in the movement since April, 1919, and I believe I have come in personal contact with more ex-service men than any other man in America. I realize that the ex-service men have their weaknesses, and that they will take advantage of the easiest plan, and if they accept the cash they will never be able to get the very thing that they need the most.

We have adopted a platform which shows in a concise way what we stand for.

Senator McCUMBER. Do you wish to present your platform and have it incorporated as a part of the record?

Mr. LORENBEIN. Not now. I am afraid it is a little too radical for the record. [Laughter.] But if you desire, I will read it [reading]:

PLATFORM.

1. We oppose exploitation of our patriotism and loyalty by any group of people for their selfish interests, and we object to being used to keep down wages and the standard of American living.

2. We are opposed to any measure providing universal military training or peace-time conscription.

3. We demand for all the people the right of free speech and peaceful assemblage.

4. Vocational training for all ex-service men regardless of their physical condition.

5. Loans by the Government to ex-service men for the purpose of securing farms and homes.

6. Bonus of \$1 per day for each day of service to be paid by the National Government.

7. Fifteen dollars per month for each month of service to be paid by the State government.

8. Twenty per cent increase in compensation for disabled men.

Those things we are very much interested in. A good many States have already granted that 20 per cent increase for those temporarily disabled. And now they are getting \$100 permanent or \$80 temporary. We feel that a man really needs \$100 where totally or temporarily disabled. So we want to get that passed in some other committee.

Senator NUGENT. What paper is it that you edit?

Mr. LORENBEIN. The Soldiers, Sailors, and Marines. I believe that is the paper which caused the American Legion to come out for the bonus. At their first convention in St. Louis they came out again for the bonus, and at Minneapolis they kind of dodged the issue—passed the buck. But now they are strong for the bonus.

But if the men in the legion really knew what they were going in get in this House bill I believe we can get the legion to come down to the right terms, and that the bill as it would be passed would



# **SOLDIERS' ADJUSTED COMPENSATION**

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## **HEARINGS**

BEFORE THE

### **COMMITTEE ON FINANCE UNITED STATES SENATE**

SIXTY-SIXTH CONGRESS

THIRD SESSION

ON

## **H. R. 14157**

**A BILL TO PROVIDE ADJUSTED COMPENSATION FOR VETERANS  
OF THE WORLD WAR; TO PROVIDE REVENUE THEREFOR;  
AND FOR OTHER PURPOSES**

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FRIDAY, DECEMBER 17, 1920

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## **PART 3**



WASHINGTON  
GOVERNMENT PRINTING OFFICE  
1920

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LEIGHTON C. TAYLOR, *Clerk.*

WILLIAM B. STEWART, *Assistant Clerk.*

## SOLDIERS' ADJUSTED COMPENSATION.

FRIDAY, DECEMBER 17, 1920.

UNITED STATES SENATE,  
COMMITTEE ON FINANCE,  
*Washington, D. C.*

The committee met, pursuant to adjournment, in the committee room in the Capitol at 10.30 o'clock a. m., Senator Porter J. McCumber (acting chairman) presiding.

Present: Senators McCumber, Smoot, Dillingham, Watson, Sutherland, Simmons, and Gerry.

Senator McCUMBER. We will first hear Mr. Hale.

**STATEMENT OF MR. EDWARD H. HALE, CHAIRMAN NATIONAL LEGISLATIVE COMMITTEE, VETERANS OF FOREIGN WARS, 319 METROPOLITAN BANK BUILDING, WASHINGTON, D. C.**

Mr. HALE. Mr. Chairman and gentlemen of the committee, I think it would be germane to make a few remarks regarding the organization which I represent. It is called the Veterans of Foreign Wars of the United States. It is an organization that has been in existence since the close of the Spanish-American War. In its originality it was an amalgamation of the various small societies that were created after the close of the Spanish-American War. The membership of the organization includes men who served in the Spanish-American War, and I think it is very conservative to state that they do not exceed over 35,000 members of our organization, the balance being entirely men who saw service in the recent war, either in France, England, Italy, Russia, or on the high seas without the continental limits of the United States.

The fundamental principles of our organization—

Senator DILLINGHAM (interposing). What was the number for the whole organization?

Mr. HALE. It is somewhere, Senator, between 600,000 and 1,000,000. It is impossible for me to accurately state what the membership is. I could say this, explanatory, that since our encampment in Washington, D. C., last September the membership is growing so rapidly that the adjutant general of our organization is unable to give an accurate statement of the membership.

Our fundamental principles, as I say, embody the patriotism, friendship, and primarily the conservation of the comradeship that was germinated in the camps on this side and which fructified during our service on the other side. The Veterans of Foreign Wars have been active in agitating an adjusted compensation, as it is termed, since their encampment in Providence, R. I., in August of

1919. At that encampment there were seven hundred and odd posts represented, and a resolution was unanimously adopted asking our legislative committee to endeavor to procure the passage of some legislation in harmony with the bill which was introduced by Congressman Royal C. Johnson and the bill which was fostered by our late lamented Dick Morgan, of Oklahoma. Appearing before the Committee on Ways and Means of the House of Representatives, our organization stressed those two features which embody the cash adjusted compensation and some form of home and land settlement.

The bill which is now under consideration, House bill 14157, I should prefer to classify as the product of the Ways and Means Committee, and not the child of any particular organization, because it embodies to some extent the two propositions which the Veterans of Foreign Wars advanced as a means of satisfying the men who were seeking adjusted compensation.

I would like to confine my remarks to the bill now before this committee. I notice and observe that the Senate Committee seems particularly concerned as to the amount of money that will be involved if the various features of this bill are enacted into legislation, and as far as it is humanly possible to conjecture I have arrived at the following liberal estimate of what it would cost to put this legislation in operation.

It is fairly accurately admitted that 300 days will represent the average service of the men who composed the Army and Navy. If the cash feature of this bill is enacted into law, it is safe to assume that not over 4,000,000 men would take advantage of it; that is the outside estimate—because the entire Army did not consist of over 4,200,000 men. Unfortunately a number of men sacrificed their lives, and they would be eliminated, and all officers above the rank of captain are eliminated. So I think we are perfectly safe in taking 4,000,000 as a basis of calculation.

The forces on the other side amounted to something above 2,000,000 men, so that would leave a residue in the United States of practically 2,000,000 men. If all the men who were on the other side were found to have served 300 days, and were paid at the rate of \$1.25 a day, as contemplated by the proposed bill, it makes an average of \$375 for each man who served. Multiplying that by the outside estimate of 2,000,000 men, would involve an expenditure of \$750,000,000. That would take care of the men who comprised the forces overseas, and would leave not over 2,000,000 men on this side, who, according to the terms of the proposed legislation would be paid at the rate of \$1 a day, or \$300. Three hundred dollars multiplied by 2,000,000 men would make a total of \$600,000,000; and the \$750,000,000 and the \$600,000,000 would aggregate \$1,350,000,000, if the cash features of this bill are put into effect.

Senator Smoot. And the average service is but 300 days?

Mr. Hale. That seems to be, Senator, the accepted average.

By the way, if the cash proposition is the final decision of the Senate Committee, the bill provides that the payment shall be distributed over 10 quarters, that is, section 204, page 12—it shall be distributed over 10 quarterly installments. So that this payment would not fully accrue for two years and some months—two and a half years.

Senator SIMMONS. That is the cash payment?

Mr. HALE. That is the cash payment, Senator.

The bill provides also for vocational education and carries added payment of 40 per cent, which would make the average payment, if that feature of the bill was chosen—and I am basing my statement on the assumption that all the men will accept either one or the other; so that we can clarify the discussion and see what each feature of the bill would cost the Government. If all the men took advantage of the vocational training it would be \$1.75 a day for 300 days, which would be \$525 a man; and if 4,000,000 men took advantage of that it would mean an expenditure of over \$2,000,000,000. The disagreeable feature and the objectionable feature to that part of the bill is the fact that that amount would become immediately due if the men all took advantage of vocational training and entered into vocational training, because the period to which they are entitled to pay is simply an average of 300 days, and if they take 300 days for vocational training their vocational training would not extend over a year. So that if Congress passed that feature of the bill, and the men took advantage of it, it would mean that over \$2,000,000 would have to be available within a year. That statement also applies, so far as the availability of the money and the amount of money that would be involved is concerned, if the home feature of the bill and the land-settlement feature of the bill are put into effect, because the bill provides that if a man takes advantage of the home proposition or the land-settlement proposition, the money to which he is entitled, plus this 40 per cent, will constitute his initial payment, and if it constitutes his initial payment it necessarily follows that it must be immediately available.

Senator WATSON. What per cent do you estimate will want cash bonus?

Mr. HALE. I hardly think, Senator, that anyone is in a position to state that.

Senator WATSON. I just wanted your best judgment.

Mr. HALE. From my observation, frankly speaking, Senator, the majority of the men will avail themselves of the cash feature of the bill.

Senator WATSON. Do you think it will run as high as 90 per cent?

Mr. HALE. I would not want to commit myself, Senator, to any definite statement, but I would like to make the statement that the large majority of the men, in my opinion—and I think, without egotism, I am in a position to state from my contact with the men, as I happen also to be director of our Service Bureau, which has been maintained here in Washington, D. C., for the past two years—I think you will find the majority of the men will accept the cash bonus.

Senator McCUMBER. I would like to ask you why they should do it, if the bill passes as it is now written. If they accept the cash bonus or adjustment they will not receive the whole amount of the money for two and a half years; it will be paid in installments and take, as I say, two and a half years. If they accept the second proposition they get an additional 40 per cent above that, and at the expiration of three years can borrow 90 per cent of the entire sum of money and get it at one time.



Mr. HALE. I was going to touch on that. As you will recall I have not touched upon that. I have not touched upon the certificate; I have not referred to it as yet. I have just addressed my remarks to the vocational training and the land proposition, and cash.

Senator McCUMBER. Yes; but my point was, why, if they would really have as much cash at the end of the third year and get it all at once as they would if they accepted the cash, and they would have at least 10 per cent or 20 per cent more coming to them, we should be inclined to take the cash payment basis rather than the second proposition.

Mr. HALE. Senator, for this reason, I associated the certificate with a cash payment. I think that the majority—and when I say “the majority” will take the cash, I mean the majority are going to take either the actual cash or they are going to take these service certificates. I associated them together because they are practically a cash proposition.

Senator McCUMBER. That is what you mean, then, when you say they will take the cash; that they will take it under the first two propositions?

Mr. HALE. Yes; either the actual cash or the cash certificate; that was my idea.

Senator SMOOT. Are you acquainted with the organization known as the Buck Private Society, A. E. F.?

Mr. HALE. No, sir; I never heard of them.

Senator SMOOT. The telegram here says, “Buck Private Society, A. E. F.,” located at Chicago, Ill.

Mr. HALE. I have never heard of them, Senator.

Senator SMOOT. I have a telegram from that organization, and I judge that they are very closely connected with Stars and Stripes. It says [reading]:

You are right: 95 per cent of ex-service men are on straw vote record with the former Home Sector and Stars and Stripes newspapers.

Mr. HALE. I do not know them, Senator; I never heard of them.

Senator SMOOT (continuing):

The American Legion is the greatest misrepresentation the ex-service man ever had. Refused to have anything to do with arrangements here for a bonus. Parade using the wounded buddies as camouflage. Does not nor never will represent the rank and file of the ex-service man.

That is, they claim that 95 per cent of the service men are on record already as to the form in which they wish the bonus to be paid. I suppose that came about from what I have stated here, that I had tabulated these circulars I had received and that the tabulation showed that 98 per cent of them desired the money.

Mr. HALE. That is probably a true average.

Senator SMOOT. I know of nothing else that would bring the telegram. Then the telegram continues:

I am sending this message to you as the representative of 7,000 ex-service men of Illinois, a membership of 20,000 in the United States. Every man served under shell fire. All solidly behind you. We congratulate you. Thank God, somebody waked up.

(Signed)

EDWARD M. MCGUIRE,  
Senior National Field Representative,  
Buck Private Society, A. E. F.,  
125 North Clark Street, Chicago, Ill.

Senator WATSON. Do you construe that telegram to mean that those soldiers are against any bonus of any kind?

Senator SMOOT. I construe this to mean that they believe in a cash bonus.

Senator WATSON. One part of it seems to indicate that way.

Senator SMOOT. Yes; and the other that they do not. I can not tell. But that is the telegram I received.

Senator WATSON. While there seems to be something of rivalry between a good many of these various associations of soldiers, nevertheless when you come down to the basis of finality they nearly all want the cash bonus, in whatever branch they belong to. That is about true, is it not?

Mr. HALE. I believe, Senator Watson, that there is a unanimity of opinion amongst the majority of men as to cash bonus. And when I say the majority of the men want the cash bonus, I mean the certificate, or, in lieu of the certificate, actual cash.

But I do believe that if this bill were slightly amended in some features it will appeal to the majority of the members of our organization.

Senator SMOOT. I would rather have you spend your time now in telling the committee what those features are rather than to give us figures as to what each plan is going to cost, because we can figure that in our minds in two minutes.

Senator SIMMONS. Mr. Hale, before you enter upon that line of statement, I want to ask you if, in your opinion, any considerable number of service men would decline, if this bill is passed, to accept adjusted compensation?

Mr. HALE. I think, Senator, in answer to that, the only reasonable ground on which you could base a conclusion is the action that has followed the passage of the \$60 bonus bill. I understand there are probably three or four hundred thousand who are entitled to the \$60 bonus who have not applied for it. Whether that is correct or not—

Senator SIMMONS (interposing). Do you think the number who declined that bonus would be less or greater in reference to this?

Mr. HALE. That would depend entirely upon the psychology of their objection. A number of them may have refused to accept that bonus because of its smallness. I have heard remarks along that line. Some of the men have resented the amount of that bonus—probably “resented” is too strong a word; but they did not feel, I would rather put it, that it was an adequate expression, and I do not think Congress intended it to be any sort of an expression.

Senator SMOOT. The way they put it to me is that rather than to accept any kind of “donation,” as they call it, from Congress, and that amounting to only \$60, they would prefer to be in position to say they had received none.

Mr. HALE. I think, Senator, that is an accurate presentation of it.

Senator SIMMONS. Anyhow, in your estimate of the number who were entitled to the bonus of adjusted compensation, you have not taken into account the number that may possibly refuse it?

Mr. HALE. No, Senator; I have taken the outside estimates of those who could possibly benefit by any legislation that may be passed; the extreme estimate.

Regarding the home feature of this bill, in order to make it really appealing to the service man, it should include some method of enabling him to receive assistance—I am talking about the man who is not a potential farmer and does not intend to go on a farm. You know there are millions of men who served in the last war who, if they had an opportunity to procure an urban home in their village or in their city, would avail themselves of that opportunity.

One of the unfair features of this bill, if I may use the word, is the fact that in order to obtain the benefit of land legislation a man must necessarily accept a farm unit to enjoy the assistance provided in this bill, while the men who want a home in their villages or in their cities are limited to the cash payment he would be entitled to plus 40 per cent. I think that inequality is causing a number of the men and associations who are opposed to this bill to voice their opposition.

I believe that if this Senate committee is disposed to pass legislation in harmony with the intention of this measure, that some parallel provision should be made for the man who may want an urban home. Of course, it is problemetical what that would cost; no man can conjecture even approximately what it would cost. But it would not be in the form of a gratuity. It could be in some form along the line of the present farm-home loan act, or something of the kind, so that the man who wants to live in a city, who wants to continue to reside with the people whom he has known from childhood, will not have to uproot his entire life and go to strange environments. Probably and unquestionably numbers of them are not equipped to follow farming and have no agricultural bent. Therefore, it would be illogical for them and unnecessarily expensive to the Government to encourage them to take up this farm feature. The farm feature is an excellent feature for those who avail themselves of it, but there should also be some provision made to enable a man to obtain a home in the city, or wherever he may elect to live.

Senator SIMMONS. Would not the cash proposition be found to be very convenient to a man who wants to buy a home in the city? It would provide him with 10 annual installments?

Mr. HALE. To the extent, Senator, of what his cash payment would be. That would probably be only \$375, or, even at the outside estimate, if he was an overseas man, according to the provisions of this bill \$625; or if a man on this side, \$575. As business men, we all know how far \$625, in homeopathic doses, stretched over a period of 10 quarters, would enable a man to buy a home in the city.

Senator SIMMONS. Do you think if a man is going to buy a home in the city instead of taking a cash payment, that he should be paid very much more than the man who gets a cash payment?

Mr. HALE. No; do not misunderstand me, Senator. I was pointing out the inequality of these two provisions of the bill. The provision provides that a man who elects to take a farm unit gets the equivalent cash payment, plus 40 per cent, to pay down on the farm; and yet he has got a farm unit and a number of years in which to amortize the balance.

Senator SMOOR. Remember this: He will have all he can do to do that, and he will have to take more than half of his labor to do that,

and if 25 per cent of them make a success of it they will be fortunate.

Mr. HALE. But, nevertheless, the inequality exists.

Senator SMOOT. I do not think there is an inequality. If he had lands such as were available in 1864 and 1865, following the Civil War, there would be an immense inequality. But by the time the man pays for what it is going to cost him to produce a farm with the provisions of this bill, you will find he has earned it.

Mr. HALE. Senator, my idea was this, in amending this bill: The cost to the Government would be practically no more than the cost which would be involved in this farm unit if the Senate can provide some way by which these urban propositions could be taken care of for the benefit of the man who is living in a city. He is working just as hard as the man who is working on the farm to make his living.

Senator SMOOT. That proposition came up when we first introduced the home reclamation bill, and it appealed to us all. But Congress can not buy a home in the city, you know, for every soldier. That is out of the question.

Mr. HALE. That would be a matter the Senate would have to decide. I am giving you now the benefit of the information that has come to me, for the enlightenment of the committee.

Senator GERRY. Have you any definite plan to suggest in regard to the handling of this urban home situation, as you call it?

Mr. HALE. I think if you will consult the record before the Ways and Means Committee—we went into that very thoroughly before the Ways and Means Committee, and I think if the Senator will pardon me it would take up unnecessary time here. It is fully discussed on pages 31 to 81 of the hearings before the Ways and Means Committee.

Senator McCUMBER. It is covered very fully, except that they do not show us where they are going to get the land.

Mr. HALE. It has been my experience with the service men since the fall of 1919 that they are not as unreasonable in their expectation as the propaganda would lead the Senate to believe. I feel perfectly safe in making the statement, in answer to an inquiry that the chairman made yesterday, that if this committee decided that it was inimical to the country at the present time to take on its shoulders a burden of \$1,300,000,000 to \$2,000,000,000, whatever the amount may be, would the ex-service men be content to wait until 1923 for whatever adjusted compensation Congress might decide was equitable.

I believe that the men whom you trusted with the honor of your Government and your country can be trusted to reasonably consider any action that the Senate may take. The only point that the ex-service man desires definitely settled at this time is whether or not Congress intends to adjust their compensation; and I believe that if the Senate and the House should pass a bill giving some evidence of the obligation to the men, to mature at a future date, the objections that you may hear to such an action will be overwhelmed by the voice of approbation that you will receive.

If the Senators desire to ask any questions I will be very glad to answer them. I think I have covered my points as far as I desire.

Senator McCUMBER. In your opinion do you not think that at least 98 per cent of the ex-service men will avail themselves of the

first two propositions—the cash and, as I call the “insurance plan,” with the right to borrow at the expiration of the second or third year?

Mr. HALE. I think that, Senator, taking the opinion of members of our organization, who were members of the A. E. F.—the men who were actually on the other side—that the majority of the ex-service men will take advantage of those two features, and I think if the Senate Finance Committee will address themselves to those two features they will be on the correct track.

Senator SMOOT. I think myself that if the second proposition, or the service certificates, are explained to the men there would be few of them but what will accept it.

Mr. HALE. Is that, Senator Smoot, the deferred certificate?

Senator SMOOT. It is the service certificate.

Mr. HALE. I would not want to contradict the Senator, but I would not want to say that that was correct.

Senator SMOOT. Those who want cash down are those who will spend it as quickly as possible. But anybody who wants the greatest assistance of the Government certainly would accept the second proposition—the service certificate, in other words—instead of payment down of the amount, for if he accepts cash he has to wait almost as long as the third period in the service certificates, and at the end of the service certificates he can get, if he had home service, within \$8.60 in a loan of what he would get in cash if he accepted a cash proposition, and he gets 40 per cent more thereafter.

Mr. HALE. You will find that the caliber of men who were in the last Army will exercise their intelligence, and they have sufficient intelligence to appreciate—to use a common expression, “to know a good thing when they see it,” and many of them are going to accept the second proposition. That is the reason I associated the two together as a cash proposition.

Senator McCUMBER. That is the reason I think when the vast majority, when they come down to contemplate just what it means, will take the second proposition.

Mr. HALE. That is what I think, although I would not want to commit myself.

Senator McCUMBER. Oh, certainly not.

Mr. HALE. I could not do that.

There was a statement made in the record, Mr. Chairman, I believe by the chairman, and which I think was due to misinformation. I happened to be with the Seventy-eighth Division in the St. Mihiel and the Argonne defensive, and I believe the Senator stated that there were about 200,000 men who actually took part in the fighting on the other side.

Senator McCUMBER. I think I stated that the information which I received, as I recall it, was that those actually engaged in battle—and I think I have the letter from the department—was about 250,000.

Mr. HALE. I took it up with the Statistical Division of the General Staff, and I think it might be a good idea to verify the record. There were 1,390,000 men who actually took part in the conflict on the other side in the St. Mihiel, Meuse, Argonne, Champagne, and Soisson, and the other engagements on the other side. That would leave about 900,000 men who took care of the service of supplies on the other side.

In conclusion, gentlemen, I just simply wish to state this: I think the attitude of the most conservative organizations of veterans is this: They feel in two years they have harrowed rather sterile soil; they felt when the House passed the bill they had planted a bearing seed; and they believe it will fructify when the Senate has finished its consideration of this bill. We feel perfectly secure in leaving the proposition in your very able hands; and whatever decision you may arrive at we are satisfied will please the majority of the men who will benefit by this legislation; and I thank you very much for the courtesy of this hearing.

Senator McCUMBER. Thank you very much. Who is the next witness?

Mr. SPERRY. I would like to say a few words.

Senator McCUMBER. We will hear you.

**STATEMENT OF MR. MARVIN GATES SPERRY, NATIONAL PRESIDENT OF THE PRIVATE SOLDIERS' AND SAILORS' LEGION, NATIONAL HEADQUARTERS 810 F STREET NW., WASHINGTON, D. C.**

Mr. SPERRY. Mr. Chairman and Senators, in presenting the views of the Private Soldiers' and Sailors' Legion we do not wish to take the attitude of coercion or threats, for we realize the great responsibility of looking out for the interests not only of the soldiers but of all of the people rests with the Senate and Congress.

Senator SMOOT. We are getting so used to coercion and threats that it does not have very much bearing upon us to-day.

Mr. SPERRY. We are perfectly willing to leave the welfare of the soldier with the committee of the Senate and the Congress.

In presenting our measure, we believe that this committee will do what is just and right, and we are perfectly willing to leave our welfare in the hands of Congress.

Senator SMOOT. You speak of "our measure." Do you mean the bill before the committee, or do you have something else?

Mr. SPERRY. No, sir. Mr. Chairman, I will consider it a very great favor if the committee will hear my detailed statement, and then I will answer any questions if I am able to do so.

Senator McCUMBER. That course may be followed.

Mr. Chairman and Senators, I should like to get the permission from the committee to incorporate in my remarks the declaration of principles of the Private Soldiers' and Sailors' Legion. They are too long, and I will not trouble the committee to read them.

Senator McCUMBER. They will be inserted in the record.

(The declaration of principles of the Private Soldiers' and Sailors' Legion subsequently submitted by Mr. Sperry are here printed in full, as follows:)

**DECLARATION OF PRINCIPLES OF THE PRIVATE SOLDIERS' AND SAILORS' LEGION OF THE UNITED STATES OF AMERICA.**

[Incorporated Mar. 18, 1919, under act of Congress for the District of Columbia. National headquarters: Suite 47, 48, 49, 53, 54, 55, 802-810 F Street NW., Washington, D. C.]

The Private<sup>1</sup> Soldiers' and Sailors' Legion is an organization of and for the private soldiers, sailors, and marines only.

The purpose of the legion is to unite all privates of the United States Army and Navy who served in the World War into one fraternal union for the mu-

<sup>1</sup>The word "Private" as used in this document intends to cover those enlisted men in the Army and Navy who are not commissioned officers.

tual protection of their rights, the advancement of their interests, the promotion of their welfare, and the fostering and aiding of cordial, social, and fraternal relations among those who served as privates in the United States forces during the World War in the years from 1917 to 1919, inclusive, and to secure forever the blessings of liberty and peace to themselves and all their fellow citizens of the United States of America. These benefits of organization can only be accomplished by definite practical steps taken by the united action of the great body of the private soldiers and sailors themselves.

The successful achievement of the purposes of the Private Soldiers' and Sailors' Legion will not only be immediately and permanently helpful to those who wore the uniform, but will be of the greatest benefit to the prosperity, security, and welfare of all the people of the United States. It was by the laws and action of the United States Government that upon the private soldier, sailor, and marine were placed the great burdens, hazards, and losses of the war. Only by the laws and action of the United States Government can those burdens be removed and those hazards and losses to some extent be compensated.

To this end we demand that the United States Government shall promptly enact legislation to provide employment at once for all demobilized soldiers, sailors, and marines who are unable to find employment in private business. The first demand of the demobilized men of the United States service is the opportunity for employment for all.

To tide over the change from military to civil life we shall ask Congress to appropriate \$500 to be paid to each soldier upon his discharge from the service. This payment to be made to those who are already discharged upon the passage of the law.

Thousands of soldiers were subject to needless hardships and privations by the unjustly heavy fines and penalties imposed on soldiers by incompetent and unfit officers in courts-martial for insignificant, petty infractions of military regulations. Congress should at once take the necessary action to see that these fines for petty offenses should be promptly repaid to the honorably discharged soldiers, sailors, and marines. And all court-martial sentences should be reviewed that justice may be done.

We demand prompt action by Congress to open up for demobilized soldiers, sailors, and marines the opportunity to employ their labor on the unused lands and natural resources of our country. And we don't want to be confined to swamp lands, cut-over stump lands and desert lands, either. We hold that the hundreds of millions of idle acres of good agricultural, mineral, and timber lands and vacant city lots are none too good for the use of the soldiers who are conceded to have saved civilization at \$30 per month, minus large reductions for fines, insurance, etc.

We seek no crumbs of private charity; we ask no dole of public alms; we know our rights and we demand them like men.

We do not purpose to be used as crowbars to pry some other man or woman out of a job. Nor do we intend to be recruited into an army of unemployed to be used as a lever to force down the wages of other citizens. Nor do we intend to starve or beg. Nature's bounty has provided Uncle Sam and all his nephews with ample opportunity for all to work, if the Government will only let down the bars of monopoly and privilege. We reaffirm the Declaration of Independence and the Constitution of the United States of America, and the reestablishment of the rights of free speech, free press, and peaceable assembly, guaranteed by the Constitution. And we recognize the duty of the men and women of our times in this Republic to carry on to full completion the work begun by our forefathers, by establishing on a sure foundation the last and greatest of the rights of man—economic liberty—without which all the other forms of freedom fail.

Mr. SPERRY. Mr. Chairman and Senators, after reading this so-called bonus bill, H. R. 14157, I am, as an ex-service man of the World War, fully convinced that the bill is anything but a bill for the benefit of ex-soldiers. It is not a soldiers' bill. It is a land-speculator's bill under the false pretense of being a bill to give the soldiers a bonus. It is, in fact, a bill to prevent soldiers from getting a bonus drawn and supported by men and organizations who were at one time openly opposed to a bonus for soldiers and whom there is good reason to

believe are now secretly at heart opposed to a bonus bill while openly professing to be in favor of it.

The very terms of this alleged bonus bill, H. R. 14157, are such as to strongly arouse the suspicion that its authors are not really in favor of a bonus, but are using this bill as a means of occupying the time of Congress and blocking the passage of a straight cash-bonus bill. This bill H. R. 14157 was at first called by its sponsors a four-fold bill, and later it became a five or six fold bill. In fact the folds and wrinkles in it became so numerous that no one could tell just how many of them there really were.

For instance, it purports to be a bonus bill, not a straight cash-bonus bill, but a series of involved and intricate provisions which seeks to separate the soldiers into several different classes, apparently discriminating against some and in favor of others and leaving everyone in uncertainty as to just what its bonus provisions actually are, and finally postponing the payment of what little dribs of bonus it does give the soldier to a year or more from the date of its passage.

Then after dexterously bringing the bonus provisions into hopeless tangle and confusion out of which expert students of the bill in the House say that the most the soldiers could expect would be 50 cents a day for one class, 15 cents a day for another class, and 7 cents a day for another class. As I said, after having got the bonus bill itself into this delightful condition of confusion and uselessness its authors proceeded to hang a millstone around its neck in the shape of a land bill, about which there is only one thing that is clear and certain—that is, it is not a land bill for soldiers but a land bill for speculators.

Then these gentlemen who manufactured this legislative woodpile with such numerous senegambians in it, proceeded to pile on a vocational training provision which is apparently intended to deprive the soldier of most of what benefit he now derives from the present vocational training law.

Then in Title III these would-be guardians of the soldier proceed to set up a new insurance scheme which no soldier after he reads it can tell whether he will have either any insurance or any bonus when he is finally ground through this new legislative mill.

Finally this bill, H. R. 14157, sets up a revenue provision for raising the money to meet the cost of the measure by a system of taxes so numerous and complex that no one to-day can tell what amount will be raised, or on whom the burden of the taxes will fall, with the sole exception it is definite in heavily increasing the tax on the ex-service man's tobacco, cigars, and cigarettes.

In support of the truth of the criticisms I have made against this "bunko" bonus bill, I wish to quote the statements of some of the leading and ablest Members of Congress as to the deceptive character of this proposed law.

(The statements submitted by Mr. Sperry are here printed in full, as follows:)

HENRY T. RAINEY. This is a service pension, as my colleague from Illinois has stated. Talk about giving the soldiers a dollar and a quarter a day or a dollar and a half a day, as they have demanded, in cash. This is what you give them: You give those who accept the cash option a service pension, commencing one year one month and two days from this date. Those who served the longest in the war will get 55 cents a day for two years and six months. Over 2,400,000



men served less than 210 days. Deduct 60 days from that service, as this bill requires, and that leaves 150 days. You give to these men for two years and a half, commencing a year from this day, 15 cents a day. Five hundred thousand of these men will get, if they accept the cash option, commencing with July 1, 1920, 7 cents a day. They will get enough money, if they buy the cheapest kind of cigarettes, to buy three cigarettes a day. This is a gold brick that you are handing the soldiers.

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Mr. Wood of Indiana. Mr. Speaker, the gentleman from Mississippi [Mr. Quin], who has just preceded me, has said that everyone who votes against this rule is opposed to the bonus bill. The gentleman certainly did not measure his words. There are a great many people here who would like to vote for the right kind of a bonus bill. [Applause.] There are a number of people who will vote for this rule out of fear that they will not have an opportunity to vote for the right kind of a bonus bill. I am going to vote against this rule, for the reason that if it is adopted it is the intention of gentlemen who have charge of the so-called bonus bill that no occasion shall be had to make it what it should be—a bonus bill in fact. [Applause.] There is no disguising the fact that there is implanted in this so-called bonus bill the Lane-Mondell reclamation scheme, which has not 50 friends in this House if permitted to stand alone. Take and adopt a rule here giving us an opportunity to amend this bill. [Applause.] Take and give us a chance so that we may give the soldiers of this country what they want, and not what they have been compelled to accept.

I have before me here now, which every gentleman here no doubt has received, a letter from ex-service men, saying that they are not in favor of this Lane-Mondell reclamation scheme, and that a rule should be adopted giving a chance to eliminate it. If you give the friends of the soldiers here a chance to perfect a soldiers' bonus bill that will be acceptable to them, you will have no trouble in passing it. Every letter that you are receiving advocating the enactment of this law refers to four alternative plans. Is that true?

There is not one of them that has taken into consideration the fifth alternative plan or the reclamation scheme proposed by the Mondell plan that is injected into the body of this bill, and the eyes of the people of the country are not closed to the fact as to what it means in the way of expenditure. I took occasion some time ago—on the 5th of May, if I recall rightly—to put in the Record what this means in a money sense. It does not mean the mere expenditure of \$250,000,000. That is just simply the nose of the camel getting under the tent. It means an expenditure out of the Public Treasury of this country, if it means one dollar, of more than \$12,000,000,000. That is what it means.

If you will examine the testimony submitted by the Secretary of Agriculture that is set out in the Record of the 5th day of May, you will find that it means an expenditure of twice more now than would have been required in prewar days, and then it would have amounted, if you please, to more than \$6,000,000,000. So I say that this most extraordinary rule should not be adopted. There is no pretense that it would have been brought in here at all but for the fact that it was by this means that they are attempting to foist on the country, not a soldiers' readjustment bill, or an adjustment pay bill, but, if you please, primarily the purpose of those who are responsible for the situation we are in here to-day is to foist upon the country this reclamation scheme that they know they can not foist upon it in any other way.

A MEMBER. Are you in favor of the bill?

Mr. Wood of Indiana. If you take out that reclamation scheme and amend some of the tax provisions that should be amended I will vote for it without hesitancy. There are but few here that can concede conscientiously that the Mondell bill should have any place in this measure. It has been discarded in this House for the last seven years, and this Congress time and time again, and it would have no chance to pass if it was depending on its own virtue.

We have in the sundry civil bill, which we passed the other day, 25 of these reclamation projects by which the Public Treasury is now being milked at the rate of nearly \$9,000,000 to pay current expenses. If this is such a good thing, and this reclamation is so advisable, why not incorporate it in the reclamation law we have now? Because there is nothing to recommend it and it must of necessity find some subterfuge in order to have character given to it, and this is the means whereby they are attempting to use the soldier boys of this country and bills introduced for their benefit as the means to foist that the country, which is a fraud in itself, a fraud on the soldier boys, and a

drain upon the Public Treasury that is not justified now or at any other time. [Applause.]

The SPEAKER. The time of the gentleman has expired.

Mr. MANN of Illinois. What will you answer when men say to you that a Republican majority in the House passes a revenue bill raising a billion and a quarter of dollars without a chance to amend it? No party in the history of the country has ever passed a revenue bill under suspension of the rules.

No party in the history of the country has ever proposed to pass a revenue bill without the right to amend it—a bill that takes a billion and a quarter of dollars out of the pockets of the people. You can not defend it by saying that it was to pay a bonus to the soldiers, because that is separate and apart from the principle—the vital principle of legislative liberty—that the Representatives of the people shall have the right to consider and amend propositions to put taxes upon them.

Mr. BLAND of Indiana. Is the gentleman against the bonus bill?

Mr. MANN of Illinois. I am against this outrageous, disgraceful, iniquitous bonus bill which carries this outrageous tax. The gentleman is in favor of any law that takes taxes out of one pocket and puts them into another pocket. I am in favor of all reasonable legislation. I do not oppose giving a preference or bonus to the soldiers, but I shall never consent freely to pass bills providing for the raising of revenue where the gag rule is applied. [Applause.]

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Mr. CLARK of Missouri. We want to change some of the tax features that are provided in that bonus bill. I am in favor of getting the money out of the profiteers who piled up fortunes during the war. [Applause.]

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Mr. TILSON. The gentleman from South Dakota [Mr. Johnson], who is recognized as one of the leading advocates of this legislation, describes the bill in such terms as ought to defeat it here to-day. He said, in substance, as an excuse for passing the bill in its present shape now that next December we can change it. In other words, he admits that this bill is bad now, but when December comes we can make its bad features good. If that is what he proposes on behalf of the service men, why not wait until December, when we in this House may have an opportunity to consider the entire matter on its merits? Who has given a single valid reason why the House should pass this bill at this time if it is to repose in a Senate committee until December? Can it be true that it must be rushed through now in order to catch the soldier vote at the approaching election? I have lived and served with soldiers and think I know something of their habits and thought. In my judgment they can not be fooled so easily.

The tax features of this bill are in many ways unsatisfactory. However, as the taxpayers seem to have but few friends here, it will be useless for me to use a single moment of my precious time in explanation of the taxation title of the bill.

The soldiers themselves will be most of all dissatisfied when they discover that in passing this bill we bring them no present relief. In passing it now to take effect more than a year hence we are guilty of attempting to play what is substantially a "bunco" game upon those toward whom we should feel the highest respect, honor, and gratitude. If we pass this bill as it is written, we shall place ourselves in the position described by Macbeth in Shakespeare's immortal tragedy as those—

"That keep the word of promise to our ear,  
"And break it to our hope."

This describes what we are going to do to the veterans of the Great War if we pass this bill and it should become a law in the form in which it is proposed to pass it here to-day. I refuse to be a party to any such confidence game. [Applause.]

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Mr. Sisson. Mr. Speaker, it is impossible, of course, to discuss this bill in two minutes. When he gets this bill the soldier will find that when he asked you for bread, you Republicans gave him a stone. He is asking for fish, and you are giving him a serpent.

This bill does not go into operation until over 12 months from to-day. Every soldier will be disappointed when he looks at this sham.

When this bill was under consideration in the Committee on Ways and Means there was a \$600 bonus in the bill. Members of that committee of the Democratic faith offered an amendment that would take the money necessary to pay that bonus from the war profiteers. You first reported a bill here carrying a consumption tax, taxing the wants and the needs and the necessities and the nakedness of the people, and your own side would not stand for it and you withdrew that bill. You know you are presenting the American soldier a gold brick, and they are going to find it out. I believe I really would insult your intelligence if I said that I thought a single one of you believed that this bill in its present form will ever become a law. [Applause.]

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Mr. TREADWAY. Mr. Speaker, I am opposed to this bill for three principal reasons. First, it contains a so-called cash bonus; second, it makes no special provision for the disabled, the wounded, the sick, the widows, and orphans of the dead; third, it offers an unfair tax provision.

When this bill was first proposed it was called a bonus bill. That title of itself was so objectionable that it then became known as an adjusted compensation bill. Neither title did other than insult the soldiers. My title for this bill would rather be a bill debasing patriotic service to commercial value. [Applause.] That is what it is; nothing else. You insult the soldier if you put it on a commercial basis and say that he should only receive \$1 more than the man who works in the shop. If there is any equalization, it should be at the rate of not less than \$5 per day in the service. It does absolutely nothing extra for the sick or the wounded. Those are the ones, and their widows and children, the ones whose husbands and fathers lie buried on foreign soil, in whose behalf the taxpayers of this country stand ready to-day to go the limit. You can camouflage the tax argument in any way you wish. You can say that this form of taxation is most easily raised. It may be, but, nevertheless, it comes back upon the American people. They will pay this billion and a half of dollars. They are the ones who are to-day clamoring for less taxation. We here to-day are giving them more taxation. Is that the answer you make to the American people? [Applause.]

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Mr. WOOD of Indiana. Mr. Chairman, in the time allotted to me I want to call the attention of the committee to what I think is the most objectionable provision of the soldiers' adjustment of pay bill introduced in this House last Thursday. I refer to Title VI. The proposed measure is divided into six different titles. Title I contains the general provisions. Title II refers to adjusted service pay, Title III to adjusted service certificates, Title IV to vocational-training aid, and Title V to farm or home aid, and Title VI to land settlement.

Each of Titles II, III, IV, V makes some provision exclusively for the benefit of those who served in the World War, either in the Army or the Navy. There are no strings tied to any of them. While Title VI purports to be for the benefit of these ex-service men, as a matter of fact it is for anybody and everybody else except these ex-service men. They are used merely to blind the real purpose of the provision. It is what is known as the Lane bill or the Mondell bill, which has been before this Congress in some shape or other for the last six years. It was one of the dreams of Secretary Lane when he became Secretary of the Interior to create a great reclamation bureau and expend millions and billions of dollars in reclaiming all kinds of waste land. It has never received a great amount of favor in this Congress. At the close of the war, and during the months of May and June, 1919, a great many bills were introduced providing for a bonus or a relief of some character to ex-service men. The first introduced among those, as I remember it, was this old Lane bill, camouflaged in the shape of a soldier's land allotment bill; but you can take and compare the bill as originally introduced by the gentleman from Wyoming [Mr. Mondell] with the original Lane bill, and there is no difference in principle, no difference in application or in practical working in the two, and if you will compare Title VI in this bill with the bill introduced by Mr. Mondell, you will find that it is the same old thing with a few new clothes on. I have been led to believe, and I think the majority of the Members of this House were of opinion, that this Mondell bill was as dead as a mackerel; and how it came to be rejuvenated and embodied in the bonus bill of course I do not know.

Mr. GARNER. Mr. Chairman, will the gentleman yield?

Mr. WOOD of Indiana. Yes.

Mr. GARNER. Does the gentleman favor legislation for the relief of the soldiers?

Mr. WOOD of Indiana. Yes; but I can not favor this provision.

Mr. GARNER. Why?

Mr. WOOD of Indiana. Because it is mere subterfuge.

Mr. GARNER. I ask the gentleman this question for this purpose. The legion requested certain legislation.

Mr. WOOD of Indiana. Yes.

Mr. GARNER. And I thought probably the gentleman was for this legislation because they asked for it, for he has given no other reason. The American Legion asked for this particular legislation, and that is one of the reasons it is in this bill.

Mr. WOOD of Indiana. I have been informed that they have asked for this bill, what induced them to do it has never been made plain. There is a whole lot that might be said about the Lane bill and about the campaign that has been made for it, from the time of its inception six years ago down to this time. I might recall to the attention of the committee that in the Sixty-fourth Congress \$200,000 was appropriated for the purpose of preliminary investigation looking to the feasibility of this character of legislation, and it might be interesting to know that the greater portion of the \$200,000 has been expended in propaganda for the purpose of popularizing this impractical and impossible scheme. But as to how much of this money has been spent in salaries to paid agents to get their indorsements I am not informed. It might be interesting at this juncture, however, to call the attention of the committee to some of this propaganda. I hold in my hand a booklet issued by the Department of the Interior under the name of the Secretary, entitled "United Reclamation Service," reading upon the outside "Hey there, do you want a home on a farm? If so, read this, fill in the back page, tear off, and mail—no postage required." Read the contents of this booklet and you will find that it would make Get-rich-quick Wallingford green with envy because of the glowing and great possibilities that have been pictured. It is an Elysian dream of what everyone of these men might expect to wake up and find a living reality. I desire to quote from it as follows:

"WORK AND HOMES FOR OUR FIGHTING MEN."

"Q. What do you mean, work and homes?—A. Just this, favorable action by Congress at the special session is expected on soldiers' settlement legislation, similar to that introduced and favorable reported at the recent session. If such legislation is passed it will enable the Interior Department to begin work at once developing cooperative farm settlements for soldiers and sailors in all or nearly all of the States.

"Q. Who will get the farms?—A. Those who create them by working on draining, clearing, irrigating, and improving the lands.

"Q. Will all get farms?—A. That depends on the amount of land reclaimed.

"Q. Is this plan only for men who have been across?—A. No; it is for all of the men who have worn Uncle Sam's uniform in the Great War.

"Q. Where is this land located?—A. In practically every State in the Union there are large areas of this land. There is dry land in the West that needs water, which can be provided by building dams and canals. In the East are large areas of cut-over or logged-off timberland, from which it will be necessary to blow the stumps and clear off the underbrush. In the South there is a large amount of cut-over land and swamp land which must be drained.

"Q. Could I get a job near my old home?—A. Probably you could. These proposed settlements are scattered all over the country, and it is time to have one in each State, if Congress provides the money for construction.

"Q. How about wages?—A. You will be paid fair wages by the Government while doing this work—just as good wages as you would be able to get in outside work of like character.

"Q. Would I be enlisted?—A. No; this work is only for men who have been honorably discharged from the service.

"Q. What kind of work is this?—A. The Government will have work of all kinds in connection with these settlements, from the highest technical and clerical positions to that of laborers.

"Q. Now, how about getting a home out of this?—A. After you have helped build the dams and canals, cleared the cut-over land of stumps, or built the

ditches to drain the swamp lands; after you have helped to erect houses and barns, built fences, constructed roads, and laid out town sites, built creameries, canneries, warehouses, schools; after you have, in fact, actually reclaimed the land, the Government will allow you to pick out one of these farms planted in crops."

Mr. BLANTON. Mr. Chairman, will the gentleman yield?

Mr. WOOD of Indiana. Yes.

Mr. BLANTON. Is this a propaganda for the Morgan bill or the Mondell bill?

Mr. WOOD of Indiana. This was a propaganda on the Mendell bill. To continue:

"Q. Does the Government give me this farm for nothing?—A. No. And you wouldn't want the Government to do it. The plan is to arrange for you to pay for your farm home in small payments over a long term of years, with interest charges at the rate of 4 per cent per annum.

"Q. How about stock and farm implements?—A. It is planned that the Government will also furnish you with the necessary stock and farm implements, to be paid for by you in small payments spread over several years.

"Q. Where will I get the money to make even these small payments?—A. You should be able to save the amount of the first payment out of your wages while working for the Government helping to build these settlements. The balance you should be able to pay from the proceeds from the sale of your crops.

"Q. I think I should like farm life, but I don't like the idea of being too far away from other people.—A. It is the plan, if Congress passes the bill now pending before it, to build what are known as community settlements, each containing not less than 100 farmhouses surrounding a town, so that you will have near neighbors, good roads over which to bring your produce to town, and market for the sale of your produce within a short distance of your farm home.

"Q. How many acres will my farm contain?—A. This will depend upon the location and kind of farming you engage in. For general farming, from 40 to 80 acres each; live stock, from 80 to 160 acres; fruit farms, 15 to 20 acres; and truck, from 5 to 20 acres.

"Q. I don't know anything about farming, but would like to get a farm home. How will I learn to farm?—A. Competent instructors in farm practice will be stationed on each project to teach men like you just how to make a success of farming.

"Q. You say that this plan depends on Congress passing this bill. Then, why are you asking me these questions now, before the bill is passed?—A. Because Congress has asked the Interior Department to make a preliminary investigation of possible settlements throughout the country, and also wishes to know whether, if construction of these settlements is authorized, the soldiers, sailors, and marines would be interested in securing work and homes on these settlements.

"Q. Can I get any further information about the plan?—A. Yes. Fill out the post card on the last page of this booklet and mail it. It doesn't require any postage. Your name will be on file in the Interior Department, so that you can be notified later if the plan is started. It is not possible now to say when this information can be sent you, and you should, of course, in the meantime not sit idly by, but instead accept the best employment that now presents itself. You are urged on your return home to get in touch with the United States Employment Service in your locality and with your local council of defense, both of which organizations will gladly give you advice and assistance in securing employment now.

"Now, fill out the post card on the back page and mail it. You don't have to put a stamp on it. Be sure and sign your name and write plainly. But remember that this means work. This is not a bounty scheme. It will give a chance to own a farm only to those who want to work a farm."

These persons are asked to fill out name in full; home address; how old are you; what was your occupation before you enlisted; have you ever worked on a farm; are you interested in this plan to provide work and a farm for you; what kind of farming do you wish to follow; state whether general, live stock, truck, or fruit; would you be willing to take a job on some project if offered you; in your own State; anywhere in the United States; write plainly and mail to-day; no postage required.

Mr. SMITH of Michigan. Will the gentleman yield?

Mr. WOOD of Indiana. I will.

Mr. SMITH of Michigan. Does the gentleman state that this bill carries out that project that he has read?

Mr. Wood of Indiana. Absolutely; that is the purpose of the bill. Now, there were 250,000—

Mr. HARDY of Colorado. Will the gentleman yield?

Mr. Wood of Indiana. I will yield.

Mr. HARDY of Colorado. How many of these replies did the Department of the Interior get back?

Mr. Wood of Indiana. The Secretary of the Interior testified before the committee that they sent out 250,000 of these booklets from his office, and that they got back 48,000 of these cards of inquiry, but a little more than 1 per cent of the soldiers engaged in the war; that they received additional inquiries from other sources about 12,000 more, making 60,000 in all, or about 1½ per cent of those who were engaged in the war.

Mr. CLARK of Missouri. Will the gentleman yield?

Mr. Wood of Indiana. I will yield to the gentleman from Missouri.

Mr. CLARK of Missouri. I will ask the gentleman from Indiana if the fact that what militated against this Lane-Mondell bill and worked up opposition to it was not the fact that they could not find any places to be drained that would make room for one of these colonies except the Everglades of Florida and southern Louisiana?

Mr. Wood of Indiana. Well, I think that equal opposition was worked up to it by reason of the absolute impracticability and impossibility of it, and from the fact that it is a scheme for the reclamation of arid, waste, and cut-over lands. As some one has suggested, there are thousands and thousands of miles of area in some of these Western States where there is beautiful scenery and where rock is worth about 1 cent per cubic mile. There is lots of that character of land. Now, I wish to state further to show you how absolutely impractical this thing is, that the Secretary of the Interior in his testimony before the committee having this matter in charge originally suggested in answer to a question that he had calculated that it would take about \$6,000 to finish one of these projects; that is, the farm project would cost on an average about \$6,000. After I had read that testimony, in order that I might get some facts from some departments that had some experience and knew something of the practical operation of these reclamation schemes, I addressed a letter to the Secretary of Agriculture asking for information upon the proposition, which I think will be very edifying to this committee.

Mr. CLARK of Missouri. Now, before the gentleman gets to that, I want to ask him this. If the Morgan plan, so called, did not militate very much against the Lane-Mondell plan?

Mr. Wood of Indiana. Well, there is not any doubt about that; and the fact is that the Morgan plan has some very attractive features about it, one of which is to create a revolving fund, as I understand it, of about \$100,000,000 for the purpose of loaning money to the men who are desiring to purchase homes of their own choice—real, existing propositions of their own selection, in their own State, among their kinsmen and friends. I am told by men who have some knowledge and have had much experience in these reclamation projects, if this thing were commenced to-day, we could not get one of these reclamation projects so it would be fit for occupancy within less than 10 or 15 years.

Mr. CLARK of Missouri. Is not the feature of the Morgan plan to loan money to soldiers at a low rate of interest so that they can buy a farm wherever they want to—the thing that popularizes the idea which Mr. Morgan suggests? The farm the soldier would get out in the gentleman's country or mine would, of course, be small, on account of the high price of land, but everybody does not want to go to the West.

Mr. Wood of Indiana. No. That is one of the most objectionable features of this scheme, even if it were practicable—to have to go away from their home, to have to go away from the places of their birth, from their associates, from their environments. These men, if we are going to do anything for them, ought to have some choice in respect to their home, and not be forced to these strange and uninviting places.

But this very bill, as you will see if you will take and read it carefully, has in mind the creation and the establishment in perpetuity of a bureau of reclamation here; and the outlay is beyond the calculation of men. I think I will be able to show you before I get through with what I have to say that, instead of it costing \$300,000,000, as proposed by the bill, it would cost, if it was carried out as proposed in this measure, more than \$10,000,000,000. It provides for a board of four directors or commissioners, who are to act in conjunction with the Secretary of the Interior, at a salary of \$7,500 each, to continue in office for

a period of five years. And I wish at this juncture to call attention to this provision, which absolutely shows that it is not the purpose of this measure to benefit the soldier boy.

You can take the 250,000 of these cards that were sent out, and the propaganda that has been spread in every possible way, upon the rostrum, through the public press, and otherwise, and yet the returns from all those, with all that energy expended, has brought back less than 1½ per cent of the men who are interested in this legislation. And they have jumped to the conclusion that each one who has answered one of these cards is going to take one of these projects. And you will find further that it was contemplated from the inquiries that were received that at least 640,000 ex-service men would take advantage of the scheme. If that was carried out, basing your calculation upon what the Secretary of the Interior has said, that it would take to complete one of these projects \$6,000, it amounts to \$3,340,000,000. However, it would take more than three times that amount, or about \$10,000,000,000. But here is the joker in this proposition: After going on and providing and making all of the provisions for its creation and operation, here is what it says:

"Any unit not allotted to a veteran or repatriate within one year after the public notice in respect thereto, as provided by this section, may be disposed of to qualified citizens under the provisions of the reclamation laws."

That absolutely establishes, if you please, that this Reclamation Service is not for the benefit of the soldier, who is expecting any relief Congress is going to give him within a year or two years at most. If they carry out this dream and if they ever have any of these projects ready and there should be no soldiers who wanted them, under the provisions of this law they could sell it to anybody who might take it.

Mr. SMITH of Idaho. Will the gentleman yield?

Mr. WOOD of Indiana. I yield.

Mr. SMITH of Idaho. I wish to say that the provision to which the gentleman makes reference was put in by the clerks in the drafting bureau and did not receive much consideration in the committee, and there is no objection to eliminating it.

Mr. CLARK of Missouri. I would like to ask the gentleman a question. Who authorized this bureau you talk about to put anything in this bill?

Mr. SMITH of Idaho. I understand that this bill was turned over to these expert draftsmen to fix up, and they thought it would be a good idea to have it in there, and the committee did not go into any detail and did not approve it.

Mr. CLARK of Missouri. That is like the fellows who used to write a copy of the Bible. They would write a note on the edge and the next copyist would copy the note into the Bible.

Mr. SMITH of Idaho. It is the desire of those advocating these reclamation projects that the soldier shall have the entire benefit of these lands.

Mr. CANNON. Suppose they do not want it?

Mr. SMITH of Idaho. Eventually, if they do not want it, the land would be open to anybody who would take it.

Mr. WILSON of Louisiana. Will the gentleman from Indiana yield?

Mr. WOOD of Indiana. I will.

Mr. WILSON of Louisiana. The gentleman has told us how this propaganda was carried on for the soldiers, but he did not tell us how the American Legion came to get behind this bill in its recommendations.

Mr. WOOD of Indiana. I presume that was largely psychological. The American Legion was probably exercising its judgment as to the best plan possible to pursue. They knew this was the pet and the dream of the Secretary of the Interior. They knew that some gentlemen in this House were very enthusiastic about it, and I expect that they thought by putting this measure in that they would at least avoid a certain amount of opposition. That is a mere conjecture, but we have a right to draw our conclusions from all the circumstances.

Mr. BLANTON. Will the gentleman yield?

Mr. WOOD of Indiana. Yes.

Mr. BLANTON. Are not the numerous defects which have been pointed out by the gentleman from Indiana [Mr. Wood] the reason now that this bill is known as the "Lane-Mondell bill"?

Mr. WOOD of Indiana. I do not know. Now, permit me to proceed.

After reading these hearings for the purpose of getting the information that I alluded to a while ago, I addressed the letter to the Secretary of Agriculture for such facts as he could present concerning the cost of this reclamation proposition, and under date of July 24 he replied as follows:

DEPARTMENT OF AGRICULTURE,  
Washington, July 24, 1919.

HON. WILL R. WOOD,  
*House of Representatives.*

DEAR MR. WOOD: Receipt is acknowledged of your letter of June 23, requesting that you be informed of the results of any investigation that may have been made by the Department of Agriculture as to the cost of reclaiming lands and placing them in condition to be farmed, together with the cost of improvements to enable practical farming.

In regard to the reclamation of desert land, the cost of such reclamation may be divided into two parts, namely, providing a water supply and the improvement of the farm units. The first of these consists of such items as the building of a storage dam, diversion dam, main and lateral canals, and head gates, chutes, drops, flumes, siphons, etc., including whatever works are necessary to bring the irrigation water to the individual tracts to be reclaimed. The cost of such works at present depends entirely upon the physical conditions encountered and varies from a minimum of probably \$50 per acre to a maximum which has not been determined. Projects recently surveyed have indicated a cost of \$160 per acre. There are considerable areas of desert lands in the West which are physically reclaimable, but which can not be economically reclaimed at the present time because the crop returns from such land would not justify the cost of reclamation. This economic limit obviously varies with different soils, climatic conditions, and distance from markets. It would be feasible to spend considerably more in reclaiming land having a rich soil and a long growing season than land at a high altitude having a very short growing season.

Under the second group is included clearing and leveling the land, building farm ditches and ditch structures, plowing, fencing, domestic water supply, necessary farm buildings, farm implements, live stock, etc. The average cost of preparing land for irrigation—that is, clearing, leveling, and ditching, based on data secured several years ago—varied from \$9 in Wyoming to \$19 in California. At that time some rather fragmentary data on the cost of equipping an irrigated farm, where general farming was followed, showed that this varied from \$17 to \$32 per acre. These figures would have to be very materially increased in order to make them applicable to present conditions.

There remains to be reclaimed in the United States approximately 100,000,000 acres of swamp, wet, and overflowed lands. These may be divided into four general classes, (1) swamp lands, (2) tidal marshes, (3) lands that are too wet for cultivation at certain seasons of the year or are periodically overflowed, and (4) seeped irrigated lands. The cost of reclaiming these lands is determined by the following factors: The cost of the unimproved land; the cost of drainage; the cost of clearing and preparing for cultivation; the cost of necessary buildings and fences; interest on investment during the period of development; and any incidental expenses, such as for lime or commercial fertilizers where they may be needed.

The character of the timber determines largely the cost of clearing. The farmer clearing the land usually does not try to bring it under cultivation immediately, but cuts out the undergrowth and small trees and girdles the larger trees. The stumps and deadened trees are removed as they rot out; in the meantime the land may be either cultivated or used as pasture. Generally the labor on the farm is utilized for clearing land at such times as there is not much other work to be done. This method of clearing is slow, and the trees and stumps interfere with cultivation, but the amount of labor required is comparatively small. If it is desired to place the land under cultivation immediately after the timber is removed, the stumps either are grubbed out by hand or are removed with explosives or mechanical stump pullers, or a combination of the methods used. The number, size, kind, and condition of the stumps are the principal factors in determining the cost.

If it is desired to clear stumps from the land immediately after the timber is cut, this item generally will be the largest in the cost of reclamation. If the process can be made more gradual, the cost is materially reduced, but the stumps and trees remaining on the land interfere with farming operations. The cost of clearing is probably the most uncertain item entering into the cost of reclamation, and there is little data available in regard to the cost of clearing large tracts. It appears probable that if large tracts are to be cleared at one time, an organization could be built up and methods developed that would materially



reduce the cost. Large projects of this character would also be in a better position to utilize the by-products from the work.

Clearing new heavy hardwood stumps from land in the lower Mississippi Valley has cost from \$60 to more than \$150 per acre, and will probably average \$80 to \$90 per acre. Clearing stumps from pine lands, such as are found on the coastal plain region of the South, can be done more cheaply, usually for \$15 to \$50 per acre, as the stumps can be burned. In Idaho it has cost, from \$75 to \$125 per acre or more to clear land; in northern Minnesota it has cost from \$100 to \$125 per acre; in the Pacific coast regions the cost sometimes has been above \$200 per acre; while in Canada clearing stumps from land that was heavily timbered has cost, in some instances, more than \$400 per acre. These figures are at prewar prices for labor and materials; if more efficient methods can not be used, the costs now would be much greater. However, in most clearing operations there is considerable salvage in the form of cordwood, poles, posts, logs, and other lumber. In some places these can be sold, or the farmer can utilize them, and thus the cost of clearing is reduced.

Recently engineers of this department have worked out rough estimates of the cost of reclamation for a number of projects in different parts of the country. The idea was to present not the cheapest project that might be found, but one that would be representative of a number of projects in each region under discussion. The costs of clearing used in these estimates have not been increased greatly over prewar prices, as it is thought that the saving from more extensive use of machinery, better organization, and more complete utilization of salvage will approximately offset the increases in prices for labor and supplies. Land prices are increasing rapidly in certain sections at present. The lands are expected to be developed in units of 5,000 acres or more, as topography or economic conditions may require. It is estimated that farms of 160 acres now will cost approximately as follows, for purchase of land, drainage, clearing, buildings, farm machinery, work animals, and some fencing, ready for cultivation:

Black lands of eastern Carolinas and southeastern Virginia—\$65 to \$115 per acre, average about \$90 per acre, if cleared by burning; \$100 to \$200 per acre, average about \$150, if cleared by pulling, grubbing, or blasting stumps.

Coastal Plain region of South Atlantic States—\$95 to \$155 per acre, average \$125 per acre.

Wet prairie lands of southern Louisiana—\$85 to \$140 per acre, average \$110.

Gulf coast of Texas between Orange and Bay City—\$85 to \$145 per acre, average \$115 per acre. Areas that require drainage by pumping will average about \$30 per acre more.

Northeastern Louisiana, eastern Arkansas, southeastern Missouri, and Yazoo Delta in Mississippi—\$110 to \$200 per acre, average about \$150.

Grand River Valley in northwestern Missouri—an area of approximately 60,000 acres can be reclaimed for \$150 to \$225 per acre, average about \$185.

Western Iowa, 40,000 acres—\$225 to \$300 per acre, average about \$260.

Northern Minnesota, northern Michigan, and northern Wisconsin—\$120 to \$200 per acre, average \$160.

San Luis Valley, Colo.—\$125 to \$150 per acre, average \$140.

Very truly, yours,

C. F. MARVIN, *Acting Secretary.*

These figures speak for themselves. They are not mine. They come from a coordinate branch of this Government whose business it is to furnish the Congress, or Members thereof, the facts. They were deducted from actual experience and experimentation by the Department of Agriculture in prewar times.

If the figures I have submitted represent the cost of reclamation during that period, you can multiply them by two or three and get the result as to what the cost would be now.

Remember that the Secretary of the Interior, in his hearings before the committee, testified that these projects would each cost on an average of \$6,000. I have taken the pains to make some calculations based upon the average figures submitted by the Secretary of the Interior and which I have just given to you.

I think it will be admitted that 160 acres is an average tract for farm purposes in any section of our country where agricultural pursuits are followed. Taking this as a unit, a tract of this size in the eastern Carolinas and southeastern Virginia would cost \$14,400. Farms of this character for the 600,000 that it is proposed to take care of under this legislation would cost \$8 640,000,000.

The same farm, if cleared by pulling, grubbing, or blasting stumps, would cost \$150 an acre, or \$24,000 per farm, or \$12,400,000,000 for 600,000 farms.

A farm in the Coast Plain region of the South Atlantic States, at \$125 an acre, would cost \$20,000, and 600,000 farms would cost \$12,000,000,000.

A farm in the wet prairie land of southern Louisiana, at \$110 an acre, would cost \$17,600, or \$10,560,000,000 for 600,000 farms.

A farm in the Gulf coast of Texas, at \$115 per acre, would cost, \$18,400, or \$11,040,000,000 for 600,000 farms.

A farm in the Gulf region of Texas, where pumping is required, at \$145 per acre, would cost \$23,200, or \$13,920,000,000 for 600,000 farms.

A farm in the northeast coast of Louisiana, eastern Arkansas, southeastern Missouri, Yazoo Delta of the Mississippi, at \$150 per acre, would cost \$24,000, or \$14,400,000,000 for 600,000 farms.

A farm in the Grand River Valley of northwest Missouri, at \$185 an acre, where it is estimated that there are 60,000 acres in a tract, would cost \$29,600, or \$17,760,000,000 for 600,000 farms.

A farm in western Iowa, where there is a 40,000-acre tract, at \$260 per acre, would cost \$41,600, or \$24,960,000,000 for 600,000 farms.

A farm in northern Minnesota, northern Michigan, or northern Wisconsin, where there are cut-over lands, at \$160 an acre, would cost \$25,600, or \$15,360,000,000 for 600,000 farms.

A farm in the San Luis Valley of Colorado, at \$140 an acre, would cost \$22,400, or \$14,400,000,000 for 600,000 farms.

The average cost of the 11 proposals just referred to is \$148.50 per acre. A 160-acre farm at this average would cost \$23,760, and 600,000 farms would cost \$14,256,000,000.

Bear in mind that these estimates are made upon the cost of labor and material in each instance at prewar figures.

The Secretary of the Interior, Mr. Lane, has estimated that these projects, 600,000 of them, if completed according to the plans set forth by him in his testimony and in the propaganda that has been sent broadcast over this country at the expense of the Government, would not exceed \$4,000,000,000. He bases his calculation, however, upon his estimate that these projects would not cost more than \$6,000 each. I do not believe there is a fair-minded man or set of men who have no interest in any of these projects but what would conclude in a moment that he has shot far under the mark and that the estimates submitted by the Secretary of Agriculture are far more dependable.

In view of past experience, it is my judgment if we venture upon this scheme and carry it to the conclusion desired by the proponents of this measure, it would come nearer costing \$40,000,000,000 than it would \$4,000,000,000.

All this talk about 600,000 ex-soldiers availing themselves of the opportunity of taking such projects is preposterous, and, in my mind, if the propagandist who has been going around over this country extolling the beauties of this scheme and the great benefits that would flow to the possessors of each project therefrom had given the facts instead of painting the Fabian picture that he did there would not have been a single resolution passed by a single legion post anywhere in the country in favor of item 6 of this measure.

The whole thing should be stricken out. The bill will be complete without it. Item 5 provides a splendid home-buying scheme and, if it is not sufficient, the addition of the Morgan proposition to create a revolving fund of \$100,000,000 to loan to ex-service men with which to acquire or build their homes would answer, in a practical way, all that is desired or could be hoped for by these men. This would permit them to choose their own home site and not compel them to go into these unforbidden wastes to eke out a mere existence.

I have felt it my duty to set forth the facts in my possession, coming as they have from an unprejudiced source—the Department of Agriculture—in order that the ex-service men of the country might be fully apprised of what they had been baited with and what a snare and delusion the whole scheme is. If I have succeeded in doing this, I will feel that the time required in gathering these facts has been well expended. Not only will it save them from disappointment, but, if this item is stricken from this bill, as it should be, it will save the Public Treasury in expenditure billions and billions of dollars. [Applause.]

The time having expired, by unanimous consent, Mr. Wood of Indiana was granted consent to extend his remarks in the Record.

Our bonus bill, in contrast to the endless complications of this bill, is plain and short and to the point. It is as follows, and anyone can understand it.

(The bill referred to and submitted by Mr. Sperry is here printed in full, as follows:)

*Be it enacted by the Senate and House of Representatives in Congress assembled,* That section 1406 of the war-revenue act of 1918, approved February 24, 1919, be amended by adding the following words, after the word "each," in the last line:

*"And be it further provided,* That all persons serving in the military or naval forces of the United States, as herein described, shall be paid in addition to all other amounts due them in pursuance of law, \$500."

Instead of the complicated and enormously costly land provisions of this bill, H. R. 14157, we propose the following land bill which was introduced in the House by Representative Huddleston.

(The bill, H. R. 11017, submitted by Mr. Sperry is here printed in full as follows:)

**A BILL** To provide employment for returned soldiers, to open up the unused lands and natural resources of the United States for the use of returned soldiers and other citizens who may desire access to them, and to promote the general welfare of all the people of the United States, and to establish an executive department of the United States to be known as the Department of Land and Natural Resources.

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,* That there shall be at the seat of government of the United States an executive department, to be known as the Department of Land and Natural Resources, the head of which department shall be known as the Secretary of Land and Natural Resources, to be appointed by the President, by and with the advice and consent of the Senate, who shall be the head of said department and who shall receive a salary of \$12,000 per year, with powers and duties similar to the heads of the other executive departments of the Government.

That there shall be in the said department a First Assistant Secretary, in charge of matters relating to agricultural land, who shall receive a salary of \$7,000 per year; a Second Assistant Secretary, in charge of matters relating to mineral lands, who shall receive a salary of \$7,000 per year; a Third Assistant Secretary, who shall have charge of matters relating to forests and water resources, who shall receive a salary of \$7,000 per year; each of which Assistant Secretaries of the Department of Land and Natural Resources shall be appointed by the President, by and with the advice and consent of the Senate.

**SEC. 2.** That the duties of this department shall be to at once take a census and survey of the unused land, mineral, forest, and water resources of the United States, and report same to Congress and the President with recommendations for the quickest, simplest, and most equitable manner of procedure for the Government to pursue in order to open up for the practical use of returned soldiers, sailors, marines, and citizens these unused lands and natural resources of the United States. And it shall be the duty of the Department of Land and Natural Resources to investigate and report to Congress and the President at the earliest possible date, to what extent and degree it will be desirable to shift the burden of Federal taxation from those things which are the product of labor to the value of land exclusive of improvements, in order that the unearned increment of land which arises from the existence and growth of population shall be diverted from the coffers of private speculators and monopolizers of land and natural resources into the Public Treasury and thereby enable the Government to greatly reduce, if not entirely abolish, all those taxes on the products of labor which now result in such burdensome increase in the cost of living: *Provided,* That the Secretary of Land and Natural Resources shall at once organize within said department a Commission of Employment, which shall consist of three members who shall be selected by the Secretary and appointed by the President by and with the advice and consent of the Senate, who shall be and are hereby authorized, under the direction of the Secretary of Land and Natural Resources, to open and arrange the use of the necessary lands, agricultural, urban, mineral, forest, and water powers so as to provide immediate employment for all demobilized and unemployed soldiers, sailors, and marines of the war 1917 to 1919.

**SEC. 3.** That the existing Bureau of Public Lands and the Bureau of Mines and the Geological Survey in the Department of the Interior and everything connected therewith shall be transferred from the Interior Department to the Department of Land and Natural Resources. That those divisions of the Census

Bureau having to do with the taking of the census of lands, mines, forests, and water powers and everything connected with the said divisions of the Census Bureau shall be transferred from the Census Bureau to the Department of Land and Natural Resources, and that the Bureau of Forestry in the Department of Agriculture and everything connected therewith shall be transferred with the said Bureau of Forestry to the Department of Land and Natural Resources.

SEC. 4. That this act shall take effect from and after the date of its passage.

We do not want it understood that there is any disposition on the part of the Private Soldiers and Sailors Legion to neglect the interests of the wounded soldiers as regards a full and just recognition of their rights to a share of the unused land of the United States. I therefore present to the committee, and ask that it be made a part of my statement to the committee, a copy of our bill introduced in the House by Representative George Huddleston, of Alabama, H. R. 11017:

To establish an executive department of the United States to be known as the department of land and natural resources, to provide employment for returned soldiers, to open up the unused lands and natural resources of the United States for the use of the returned soldiers and other citizens who may desire access to them, and to promote the general welfare of all the people of the United States.

This bill, we believe, provides the only fair and just method for securing all ex-service men their equal rights to a share of this land; and while we recognize the fact that the enactment of a just and equitable land bill for ex-service men is a large and complex question, which will probably take much time for Congress to decide upon, we, in conformity with what we believe to be the wishes of this committee, do not desire to take up the time of the committee with extensive argument of the land bill at this time. But we do wish that the committee, when it comes to the consideration of land laws for the soldiers, give careful consideration to the plan set forth in Representative Huddleston's bill.

By this bill there will be created at once a Government department of land and natural resources, which will have the machinery, the power, and authority for planning a just and equitable provision for the soldiers' rights in the land. Such a plan will be far more comprehensive and equitable than any plan or scheme that is liable to be devised by any single individual or organization outside of the Government itself, and will provide a plan that will be more liberal, just, and equitable and not be in any way influenced by personal or selfish outside interests.

We feel that the wisest thing to do is to proceed at once with the enactment of the bonus bill at this time and take up the land question as early as possible thereafter.

The question has been repeatedly raised in the discussion before the committee as to whether the great majority of the soldiers themselves want a bonus bill enacted by Congress. Mr. Chairman, I think this question was answered not only by the statements of the various representatives of the soldiers who appeared before your committee, but I think it was most emphatically answered in the affirmative by the great petition signed by over 2,000,000 soldiers which was presented to the House of Representatives by the Hearst newspapers at the last session of Congress.

(The resolution referred to was subsequently submitted by Mr. Sperry and is here printed in full, as follows:)

[H. J. Res. 315, 66th Cong., 2d sess.]

JOINT RESOLUTION Instructing the Attorney General to institute proceedings against certain corporations restraining them from distributing surplus war profits.

*Resolved by the Senate and House of Representatives of the United States of America in Congress assembled,* That the Attorney General of the United States is hereby authorized and directed to at once begin injunction proceedings in the courts of the United States against the Standard Oil Company and its various affiliated or allied companies, the United States Steel Corporation and its various allied or associated steel, iron, coal, railroad, and banking corporations, to restrain the aforesaid corporations and companies and their officers and agents from taking any steps, either by stock dividends or other devices, to distribute the surplus war profits accumulated in their treasuries during the past six years.

SEC. 2. That the Ways and Means Committee of the House of Representatives be, and is hereby, instructed to immediately draft and report to this House a bill to provide for taking into the Treasury of the United States all the said surplus war profits of the aforesaid corporations and companies and all other corporations and companies similarly situated, the revenue so derived from the tax or surplus war profits to be used first for the benefit of each soldier, sailor, marine, or nurse who served in the United States military or naval forces during the European war of 1917 and 1918.

As a way of providing a quick, easy, and equitable method of raising revenue necessary to pay this \$2,000,000,000 bonus for the soldiers, our legion has, in conjunction with Representative E. C. Little, of Kansas, prepared and Representative Little introduced in the House a resolution which would convey into the Treasury the surplus war profits of corporations for the past six years. This immense fund would be used for the benefit of the veterans.

As evidence of the correctness of our claim that the carrying through of the provisions of the Little resolution will provide quickly and easily the entire \$2,000,000,000 needed for this bonus for the soldiers without burdening the masses of the people with new taxes, and without increasing the high cost of living, and entirely avoiding the dangers of a great new bond issue, I submit the following tables of accumulated surplus war profits now in the treasuries of the leading war-profiteering corporations in the United States. One table includes steel and other industrial corporations, and the other one is made up exclusively of oil companies.

*Surplus war profits of the Standard Oil Trust and other oil companies.*

[Last reported surplus.]

Atlantic Refining.....	<sup>1</sup> \$55,316,043
Ohio Oil.....	63,839,643
Prairie Oil and Gas.....	70,433,441
Solar Refining.....	3,361,999
Standard Oil of Indiana.....	105,117,258
Standard Oil of Kansas.....	5,477,170
Standard Oil of Kentucky.....	4,240,640
Standard Oil of New Jersey.....	<sup>2</sup> 463,712,410
Standard Oil of New York.....	110,023,634
Standard Oil of Ohio.....	<sup>3</sup> 13,482,978
Vacuum Oil.....	43,546,790

These last three items adding \$127,000,000 to the surplus of the treasury of these oil companies represents other undisclosed war profits not included in the table above and should clearly come within

<sup>1</sup> Does not include proceeds of recent sale of \$20,000,000 preferred stock.

<sup>2</sup> Does not include proceeds of recent sale of approximately \$100,000,000 preferred stock of the 1919 earnings.

<sup>3</sup> Does not include proceeds of recent sale of \$7,000,000 preferred stock.

the scope of the taxes to be now levied by Congress to raise the money to pay the soldiers' bonus.

In addition to the above list of the Standard Oil Cos. there are a great number of independent oil companies outside of the Standard, who have also accumulated hundreds of millions of surplus war profits that would properly come within the scope of the taxes we propose through Representative Little's resolution.

The above tables of corporations' surplus war profits are quoted from the financial columns of the New York American of Wednesday, March 10, 1920.

*Total surplus war profits of the Steel Trust and other industrial corporations.*

American Car & Foundry	\$31,324,521
American Locomotive	22,793,244
American Linseed	10,530,478
American Sugar Refining	21,383,433
American Woolen	19,724,623
American Brake Shoe	9,723,800
American Tobacco	44,584,333
Baldwin Locomotive	11,332,160
E. W. Bliss	6,131,874
Central Leather	30,509,274
Chandler Motor	7,225,228
Crucible Steel	38,325,593
Cuban-American Sugar	16,828,168
E. I. DuPont	71,741,304
General Electric	52,250,661
General Chemical	17,117,806
Goodrich Rubber	41,203,046
Goodyear Tire	33,332,666
International Paper	19,104,764
International Harvester	68,036,663
Lackawanna Steel	31,624,736
Liggett & Myers	19,753,025
Mexican Petroleum	16,466,894
National Enameling	8,230,604
National Biscuit	17,761,785
National Lead	6,054,168
New York Air Brake	6,054,168
Pittsburgh Coal	23,822,652
Republic Iron & Steel	33,880,971
Railway Steel Spring	1,532,004
Swift & Co.	84,575,179
Scoville Manufacturing	18,383,032
Texas Co.	60,000,406
U. S. Rubber	41,848,063
U. S. Steel	466,888,421
United Shoe Machinery	26,598,986
United Fruit	49,109,723
Virginia-Car Chemical	24,109,233
Wilson & Co.	19,789,232

This is, of course, only a partial list of the great industrial corporations and monopolies who have accumulated hundreds of millions of dollars in their treasuries which should be properly taxed before any further levies are made on the mass of the people and before the country is burdened with any further bond sales.

It will be observed that in the case of two of these corporations, viz, the United States Steel Corporation, which has over \$460,000,000 surplus war profits in its treasury, and the Standard Oil Co. of New Jersey, which has over \$560,000,000 surplus war profits in the treasury; these two great monopolies alone out of their surplus war profits

can provide over one-half of the two billions required to pay this bonus.

The other branches of the Oil Trust have in excess of one-half billion dollars war profits available for this tax, while the miscellaneous steel, coal, and other great industrial corporations have over \$1,060,000,000 surplus war profits, every dollar of which should in justice and equity be taxed into the Public Treasury for the purpose of paying the soldiers' bonus before another penny of taxes is laid on the consumers of the country and before another dollar of bonds is issued for any purpose.

For the better care of one of the most unfortunate and worst afflicted classes of our men who suffered injury and disability in the World War, viz, the men afflicted with mental and nervous maladies, the Private Soldiers' and Sailors' Legion prepared, and Representative King, of Illinois, introduced in the House, the following bill, to provide for the segregation and care of the men of the United States Army and Navy and Marine Corps afflicted with mental and nervous maladies.

The need for improvement in the care and treatment of these most unfortunate sufferers from the war is so urgent that Congress ought to pass this bill without a moment's further delay.

Senator SUTHERLAND. How many members have you in your organization?

Mr. SPERRY. Senator, we have not two million.

Senator SUTHERLAND. I did not ask how many you did not have; how many have you?

Mr. SPERRY. We have at the headquarters I think in the neighborhood of 700,000 signed applications, but they are not all paying members. There is a very small percentage of our members who are paying members. We hope later on that they will all be able to pay their dues to carry on the work of the organization.

Senator SUTHERLAND. You consider them members of your organization whether they pay their dues or not?

Mr. SPERRY. We consider them members, yes. They have signed our application. I have an application here.

(The formal application submitted by Mr. Sperry, is here printed in full, as follows:)

#### FORMAL APPLICATION.

[Fill in and hand to any member or mail to national headquarters.]

\_\_\_\_\_, 192—.

PRIVATE SOLDIERS AND SAILORS LEGION,  
802-810 F Street NW., Washington, D. C.

I hereby make application to become a member of \_\_\_\_\_ Legion, No. \_\_\_\_\_ of the Private Soldiers and Sailors Legion, located at \_\_\_\_\_. If accepted for membership I promise to obey the laws and rules of the legion and uphold the Declaration of Independence and the Constitution and laws of the United States of America.

Occupation \_\_\_\_\_ Served as \_\_\_\_\_ in Co. \_\_\_\_\_ of the \_\_\_\_\_ Regiment \_\_\_\_\_ in the United States forces during the war of 1917 and 1918.

Membership fee of \$1 submitted with application.

\_\_\_\_\_  
(Applicant)

\_\_\_\_\_  
(Address)

Recommended by:

\_\_\_\_\_  
(Title)

I wish to thank the committee on behalf of the Private Soldiers and Sailors Legion, and to assure you that we rely upon the Senate and Congress and believe they will do what is right and just by the soldiers.

**STATEMENT OF MR. EDWARD H. HALE—Resumed.**

Mr. HALE. In my previous statement to-day, the question was brought up of the differentiation in Title 2 of the payment to be made to overseas men, and those who had served on this side.

I believe that the representations of the Veterans of Foreign Wars were primarily responsible for the difference appearing in this bill, and we predicated our action on these reasons: The United States Government, even in peace times, when it sends its soldiers abroad, recognizes the additional expense to which the soldier is usually put and allows him 10 per cent for overseas service.

Aside from that, the 5 francs 70 centimes, or whatever the rate of interest may have been when the men were on the other side—and I can assure the Senator that when we were in the back areas, and most of the men who served on the other side will bear me out, did not have the purchasing power of the dollar that the men were receiving on this side.

In addition to that, the Government has seen fit to put a gold chevron on the arm of the men who served on the other side, and a silver chevron on the arm of those who served on this side; and in asking this differentiation it is not based on any disparity of service, or because we belittle the men or think less of the men who served on this side. Nobody holds them in any higher estimation than we do, because we recognize that every man who donned khaki was a potential member of the A. E. F.; and the differentiation is based entirely on economic reasons, because with our friends on the other side the equivalent of a dollar did not go as far as the dollar received by the boy on this side.

Senator McCUMBER. I wanted to ask one question, however, and I might as well ask it of you, and that is this: What actuated the committee in the House, if you know, in deducting the first 60 days from the service of the soldiers before the allowance of their \$1 and their \$1.25 should begin?

Mr. HALE. You will find, Mr. Chairman, that most of the men who are excluded from that provision served less than 30 days instead of the 60 days, and all the men who will benefit by this legislation served a much greater period than 60 days.

Senator McCUMBER. That is not the question. You possibly do not understand me. The question is this: Under the bill the payment of \$1 and the \$1.25 is for all days of service in excess of 60 days. It is not that it simply applies to those who served 60 days, like those who served 90 days in the Civil War in order to be entitled to a pension; but the \$1 a day and the \$1.25 a day are the days in excess of the first 60 days.

Mr. HALE. I think that maybe I can answer the question. I think that the Ways and Means Committee endeavored to prevent additional payment going to those men who had served a very short time. There were a number of men, you will find, who came in just a short time before the armistice; and they had already received \$60.



I tried to make that clear, but probably did not. And there were a number of men who probably served 10 or 15 or 20 or 30 days, and they have already received \$60, and a majority of the men who have received the \$60 and would receive this additional compensation have served a considerably longer period than 60 days.

Senator McCUMBER. I think that explains the reason. The estimate that is made by the Legion, as I understand it, is that the average service of each soldier was 300 days?

Mr. HALE. I think that is generally accepted.

Senator McCUMBER. That means, of course, 300 days in addition to 60 days?

Mr. HALE. No; I think it is 300 days, Senator, including the 60 days.

Senator McCUMBER. Then there would be only 240 days to compute on?

Mr. HALE. No, Senator. It must be remembered that \$60—that men who are prevented from accepting this additional compensation are only those who served less than 60 days. The men who served 60 days or over, the \$60 he has already received does not enter into it; he will receive an additional dollar for every day he served.

Senator McCUMBER. But that is not the reading of it. You are mistaken there. Let me call your attention——

Mr. HALE (interposing). That is my interpretation of it.

Senator McCUMBER. That is not the bill. Section 202, at the bottom of page 7 reads:

There shall be paid to any veteran upon application in accordance with the provision of section 4, and in addition to any other amounts due him in pursuance of law, the following sums for each day of active service in excess of 60 days in the military or naval forces of the United States after April 5, 1917.

Therefore, the sum for each day is for each day in excess of 60 days.

Mr. HALE. That was not my interpretation of the bill.

Senator McCUMBER. That is the way it reads, and that is the reason I am asking that question.

Mr. HALE. I was under the impression that the bill provides \$1 a day for each day of service, excluding those who had served less than 60 days, and who had already received the \$60 service.

Senator McCUMBER. Looking over that part of it which I called your attention to on this page, I want to ask you if you think the bill should be passed in that form, because without any question that clearly provides that the soldier is to only receive compensation for the days of active service in excess of 60 days, and not for the 60 days.

Senator SUTHERLAND. Has not that already been covered, Mr. Chairman, by the \$60 bonus that has already been paid them? The House in its action practically says all of the service men received \$60 bonus.

Senator McCUMBER. However that may be, that is not the purpose of the question. In taking the estimate of the cost here by the witness, the estimate is made upon the basis that there will be 300 days on which to base the compensation. According to this, if all of the average service was but 300 days, then the estimate would have to be made upon 240 days and not 300.

Mr. HALE. I see that is the only construction that can be put on the bill. But I overlooked it. I was under the impression that it simply applied to the man who had served less than 60 days, and who had already received his \$60 bonus.

Senator McCUMBER. That is not correct.

Mr. HALE. I see that that is not the case, and, in my opinion, it should be amended to omit the \$60 they have already received and pay them \$1 a day for the time actually in service, because this is adjusted compensation, and we have already taken into consideration the \$60 gratuity that the Government had given, and we are not asking for any gratuity now.

Senator McCUMBER. I think you have answered the question. Thank you. Are there any other witnesses?

Mr. JONES. If I may say a few words?

Senator McCUMBER. You may.

**STATEMENT OF RICHARD S. JONES, EDITOR STARS AND STRIPES,  
WASHINGTON, D. C.**

Mr. JONES. I do not care to make any statement, except to say that I understood the matter of the activities of our newspaper, in connection with the circulation of bonus-opinion postcards, etc., has been somewhat discussed by the committee, and I think if I could throw any light on that I would be very glad to do so.

Senator WATSON. The only matter in which you were involved was that your paper had conducted a propaganda in favor of the cash bonus, and that you had sent out postal cards.

Mr. JONES. I think I can make the minds of the committee clear on that. The paper has conducted "propaganda," if you please to call it so, for the bonus, a very widespread one, not only of post cards, but by a great many petitions. And the petitions were sent to Members of the House, asking particularly for a cash bonus.

I think that the expression of opinion found on those post cards is a reasonably fair expression of the feeling of the people who sent them in.

Senator WATSON. When you commented on the question, did you advocate the cash bonus?

Mr. JONES. No. Our editorials have been in favor of, you might say, this present bill, and the principles of a selected bonus. The question of which form a man would select has not been discussed. As a matter of fact, if we did advocate any we would not advocate the cash bonus, because, as a matter of common prudence, there are other forms that would be more valuable.

I would say that under the present condition of unemployment, which brings us back to a fundamental reason for the entire bonus matter, the fact that out of 4,000,000 and odd men in the service it has been estimated that 2,000,000 at least, by reason of their military service, left homes of a rural character, farms or farm employment, on receiving their military discharge settles in the cities at a time of very high wages. The thought has been expressed by a good many organizations—I do not represent any one organization; our newspaper is purely an independent organ for all veterans—what has been expressed, and I think it is a very pertinent one, that the land

bonus in this bill, or of other bills presented, if put into effect at an early a date as possible, would be a wonderful help in the reconstruction problem by giving employment to men outside of the cities who are misplaced in the cities—are there by reason of the circumstance of their service and their discharge near a city and the temporarily high wages that they received there.

Considering the bonus matter as a matter of what good can be done for the ex-service man to readjust his condition to where he was before his service, that back door alone would do perhaps more good than any other involved in the whole bill; and I would like to say that our paper, while it is purely independent of the legion or the Veterans of Foreign Wars and these other organizations, has been one of the instrumental factors in the discussion of the followers, the publication of its news and the propaganda, if you want to call it so, in favor of it—I can assure you that our paper, as well as the officers of these organizations have assured you, would use every means in its power, if the entire bill were enacted in its present form, to assist in educating and distributing information to help every man to take advantage of the factors in this bill that would be most useful to him in a permanent way.

Senator WATSON. Have you information leading you to believe that the soldiers who after their discharge were attracted to the city by unusually high wages, having found that city wages have gone down, would return to the farm?

Mr. JONES. A good many would by reason of the aid that they would receive, as demonstrated by the applications that have been made to the Interior Department and other matters which have been brought up here; a good many more are going to be compelled to return to the farms by economic pressure by reason of the condition of unemployment which now prevails in the cities as it is shown at the present time. We come in contact with service men very closely through our paper and keep in touch with them, both through the editorials and by means of letters to the editor and through the sales of the paper, so that we know pretty fairly the condition of unemployment in the big centers.

Senator WATSON. What is the circulation of your paper?

Mr. JONES. It is 113,000 the 1st of December. It is growing rapidly.

Senator McCUMBER. Mr. Jones, we have quite a number of irrigation schemes and projects that the Government is at the present time trying to operate. A great many of them are failures. In other words, in a great many instances men who have taken their allotments are unable to pay for the water and pay for the land under the present situation, and the Government has not foreclosed them, although some of the projects, I understand, have been closed down because they could not make ends meet. You do not see a great deal of hope in giving the soldiers much benefit in those irrigation projects, do you? Probably our very best projects have been selected.

Mr. JONES. The House bill that is before you now differs from Senator Borah's bill or from the old Lane-Mondell bill or the Smith bill and other bills covering that in this respect: That the bonus bill, while it has the same plan for long-term payments, the same

plan for Government loans to buy live stock, and so on, it makes the adjusted compensation the first payment on that land. In other words, by doing that it gives a man from one to two years, the hardest part of his trouble, free of payment, and that is the worst portion of the time for a man to get over. I have lived out in that country and know about it.

Senator McCUMBER. Suppose they provided in this bill that the adjusted compensation might be applied if the soldier saw fit in the purchase of land or purchase of home or purchase or payments under the irrigation projects now in existence, under such rules and regulations as should be adopted. Would that be satisfactory?

Mr. JONES. The bill very substantially does so provide, with some little changes in what you have said.

Senator McCUMBER. I am very doubtful about getting the Government into any new schemes of irrigation or providing land for the soldiers, because I think they would be a wonderful disappointment to soldiers.

Mr. JONES. You mean if they could go on present projects?

Senator McCUMBER. Yes; or any projects to be developed in the future, without compelling the Government to spend hundreds and hundreds of millions of dollars for some project that will not be a success, and in which we would be tempted to make a trial, because we would want to satisfy the demands of the soldiers.

Mr. JONES. I think the service men's answer to that would be that the present projects are inadequate to take care of any great number of men, and that they are located at distant points. The thought of this bill was to create projects not only where the irrigation projects are in the West, but on stump land, for example, in the South, or on swamp land, or improve the land in every State so far as possible. If the present projects offered enough facilities for a large number of men, it might be practicable, as you have outlined. I do not know the statistics; I do not know how many projects there are and how many opportunities there are.

Senator McCUMBER. I have no faith, I will say, candidly, in the land project.

Is there anything further, Mr. Jones?

Mr. JONES. No; unless the committee wants to ask questions.

Senator McCUMBER. We are much obliged. We will now adjourn until to-morrow at 10.30 o'clock, when the committee will have a short executive meeting and determine what else we will do.

(Thereupon, at 12 o'clock noon, the committee adjourned to meet in executive session to-morrow, Saturday, December 18, 1920, at 10.30 o'clock a. m.)







# **SOLDIERS' ADJUSTED COMPENSATION**

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## **HEARINGS**

BEFORE THE

### **COMMITTEE ON FINANCE UNITED STATES SENATE**

SIXTY-SIXTH CONGRESS

THIRD SESSION

ON

## **H. R. 14157**

**A BILL TO PROVIDE ADJUSTED COMPENSATION FOR VETERANS  
OF THE WORLD WAR; TO PROVIDE REVENUE THEREFOR;  
AND FOR OTHER PURPOSES**

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THURSDAY, DECEMBER 23, 1920

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## **PART 4**



WASHINGTON  
GOVERNMENT PRINTING OFFICE  
1920



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WILLIAM B. STEWART, *Assistant Clerk.*

## SOLDIERS' ADJUSTED COMPENSATION.

THURSDAY, DECEMBER 23, 1920.

UNITED STATES SENATE,  
COMMITTEE ON FINANCE,  
*Washington, D. C.*

The committee met pursuant to call, in committee room, Capitol, at 10.30 o'clock a. m., Senator Porter J. McCumber presiding.

Present: Senators McCumber (acting chairman), Smoot, La Follette, Dillingham, McLean, Watson, Sutherland, Gore, Gerry, and Nugent.

Present also: Hon. David F. Houston, Secretary of the Treasury.

Senator McCUMBER. The committee will please come to order. We have a quorum, and we will call upon the Secretary of the Treasury, if he is ready, to give his testimony now.

### STATEMENT OF HON. DAVID F. HOUSTON, SECRETARY OF THE TREASURY.

Senator McCUMBER. Mr. Secretary, we have under consideration the bill generally known as the soldiers' bonus bill. The question turns more upon the state of the Treasury at the present and in the future than possibly upon any other question, and that undoubtedly opens up the whole question of finances. We would like to have you give us your views concerning not only this particular subject but the general subject of the financial situation and how you propose to handle it.

Secretary HOUSTON. Mr. Chairman, I regret that I have not been able to give this matter very much consideration since you telephoned me. I have been confined to the house with influenza or something of that sort. But, of course, I have had the general subject in my thoughts very intimately for a long time and have touched upon the situation, both in general and in detail, in my annual report. The problems confronting the Government in the field of finance are not insuperable but they are difficult. They are not by any means, of course, as difficult as those that we confronted during the war. Our expenditures are running much lower than they did during the war, and the tax receipts have for the most part held up, and the country has, therefore, tended to return toward a more stable financial condition. The following, in brief, seems to be the situation confronting us and the desirable way of meeting it: We have at present a floating debt, in the form of certificates, of approximately \$2,300,000,000. We shall have maturing on the 1st of January, 1923, \$800,000,000 of war-savings securities; and, in May, 1923, the Victory loan of approximately \$4,250,000,000. In round numbers, the obligations we must meet within a little more than two years, total approximately \$7,500,000,000. In addition we must

carry on the Government. The estimated expenditures for the ensuing fiscal year are in the neighborhood of \$4,800,000,000—

Senator SMOOT. \$4,600,000,000?

Secretary HOUSTON. I have the figures here. As I have it, the total estimated ordinary expenditures for 1920-21 are about \$4,800,000,000, and for 1921-22 about \$3,900,000,000.

Senator SMOOT. That is without the deficiency?

Secretary HOUSTON. Yes.

Senator SMOOT. The deficiency bill would make it \$4,700,000,000?

Secretary HOUSTON. The estimated excess receipts over expenditures, exclusive of the public debt, for 1920-21 are about \$888,000,000, and the excess receipts over expenditures, exclusive of the public debt, for 1921-22 are about \$962,000,000. For 1920-21, including the public debt, there will be an estimated gross deficiency of slightly over \$2,000,000,000, and for 1921-22, including the public debt, of slightly over \$1,448,000,000.

It is obvious, Mr. Chairman, that if no changes are made and the estimates are approximately correct, we shall go forward into the fiscal year 1922-23 with a gross deficit of \$1,500,000,000, including public debt expenditures and that we shall then face the problem of continuing to carry on the Government of meeting this deficit, and of handling the war-savings securities of \$800,000,000 and the Victory loan of about \$4,250,000,000.

At the same time we are confronted with the fact that some of the sources of revenue are tending to dry up, that the receipts from some taxes are, therefore, tending to fall. Unless something can be done to reduce expenditures, we shall have to look about for additional revenues to carry on the Government and to execute a sound financial program, even if no unusual or additional burdens are imposed. That will be no easy undertaking, because, while the country, even with the recent business changes, the decline of prices and other disturbances, is still strong, there is a growing reluctance to continue to pay high taxes.

Senator WATSON. Would it disturb the continuity of your statement to ask you what sources of revenue are drying up?

Secretary HOUSTON. Principally the income and profits sources. For instance, as I stated in my annual report, net income of taxpayers with net incomes of over \$300,000 for 1916 was returned at \$993,000,000; for 1917, at \$731,000,000; and for 1918, at \$392,000,000. Also, the estimated excess-profits tax yield, with collections of back taxes, which for 1919-20 was estimated at approximately \$2,000,000,000; for 1920-21 estimated at \$1,250,000,000; and for 1921-22 at \$800,000,000.

So that even if you retain the present scheme of taxation, if the estimates are reliable—and I think they are reasonably so—you will witness a falling off of the revenue.

Senator SMOOT. Your estimate shows it much less for 1921-22?

Secretary HOUSTON. Yes, sir. I have here the estimated income- and excess-profits tax receipts for four years: 1918-19, \$2,600,000,000; 1919-20, \$3,956,000,000; 1920-21, \$3,200,000,000; 1921-22, \$2,625,000,000.

The customs revenues, which in 1918-19 were \$183,000,000, were for 1919-20, \$323,000,000, and the estimate given me for 1920-21 is \$350,000,000, with a similar amount indicated for 1921-22.

Senator SMOOT. It will probably be more than that for 1921-22, however?

Secretary HOUSTON. That may be.

Senator McCUMBER. I notice that in your annual report you give the ordinary receipts in 1922 at \$4,859,530,000. Of course, that report was made on, I think, November 20. Now, with the developments and changed conditions since that time do you still think that statement of the receipts is approximately correct?

Secretary HOUSTON. Of course, that was made on the basis of conditions existing at that time. I think the likelihood is that there may be a decline rather than an increase.

Senator McCUMBER. So that there will be less than that, creating a greater deficiency?

Secretary HOUSTON. Possibly. Furthermore, I think it desirable, for administrative and other reasons, that some modification be made in existing tax arrangements. It has been our experience that the excess-profits tax—that method of approaching the profits of corporations—has not worked equitably as among the different corporations themselves or as between corporations and other businesses.

I am informed by the Treasury experts that the difficulties of administering the act, of auditing the returns on the basis fixed by the law, are exceedingly great, and that it is impossible to catch up in the work; and, as I said a moment ago, it is quite obvious that the receipts from the tax are falling and may fall materially lower.

Senator SMOOT. It has also forced certain men in the United States to buy nontaxable securities, and that has caused the loss of a great deal of money from that source?

Secretary HOUSTON. I think that is true, particularly of the super-taxes.

Senator SMOOT. Yes; particularly of the supertax.

Secretary HOUSTON. As to the feasibility of reducing the estimates, keeping the expenditures of the Government down, I have no definite way of determining the extent to which that is possible. Certain charges are fixed. The interest on the public debt runs in the neighborhood of a billion dollars. That must be met. The sinking-fund charge, which will be in the neighborhood of \$255,000,000 or more, in my judgment ought not to be tampered with. I think we ought to proceed with the sinking fund and the gradual extinguishing of our public debt. It has been the experience of all nations that when they once begin to tamper with the sinking fund they do not soon quit. I should dislike to see this Nation depart from what I consider a sound basis established in existing law.

Generally speaking, this Government during the war established and followed substantially sound fiscal policies. I am not speaking of each feature of the tax laws; but the general principle of paying a large percentage of the expenditures of the war through taxes—roughly speaking, something like a third—seemed to me at the time to be wise and still seems to me to have been wise. Furthermore, the provision in the law for the retirement of the debt was a wise provision. Also the general principle established in the tax legislation, of making the system on the whole a progressive tax system, basing it on the principle of the ability of the taxpayer to bear the

burden, which I believe is generally conceded to be sound—I think that principle established in the law was sound and wise.

Senator SMOOT. It will take us 33 years to pay our debt off under the existing law.

Secretary HOUSTON. There are certain estimates, relatively small, which, perhaps, can be reduced and doubtless should be reduced. The largest single items are those for the Army and the Navy, running, as I recall it, without any deficiencies, to approximately \$1,600,000,000.

Senator SMOOT. There is \$100,000,000 of deficiencies already asked for in the War Department.

Secretary HOUSTON. What course the Congress will deem it wise to take as to the future of the Army and the Navy I have no means of determining.

Senator McLEAN. What effect will the revival of the operation of the War Finance Corporation have upon these estimates?

Secretary HOUSTON. That has been very much in my mind, Senator, for some months, and I suppose my view is pretty well known on that subject.

I have been opposed to the resumption of the activities of the War Finance Corporation. My reasons, as briefly stated as I can give them, are these: I assume that that amendment, which is the only provision of the law in question, authorizing the corporation to lend money to exporters who could not otherwise get the money, was passed at a time following the armistice when apparently it was assumed that foreign trade might be very greatly interrupted, might get in a very chaotic state, and might largely cease; because for the previous year, the calendar year 1918, we had been exporting great quantities of military supplies, food supplies, and things of that sort to Europe, partly on credits established by this Government to European governments. That apprehension was, of course, not realized; export trade not only did not become chaotic, did not decline, but very greatly increased.

Senator McCUMBER. In volume or in value, or in both?

Secretary HOUSTON. In both. Speaking in terms of value, compared with a prewar export of \$2,300,000,000, we exported during the last calendar year of the war, 1918, \$6,000,000,000, which was the year in mind when this amendment was passed. The exports for the succeeding calendar year, 1919, were \$7,900,000,000, of which \$4,000,000,000, roughly speaking, were agricultural products. When we suspended operations, the exports were running at the rate of something over \$8,000,000,000, and have since been running at the rate of \$8,100,000,000. The exports up to the last report of the Department of Commerce, running through November, were over \$7,500,000,000.

Senator LA FOLLETTE. What proportion of agricultural products?

Secretary HOUSTON. May I come to that in just a moment—\$7,500,000,000, with the exports for November valued at \$675,000,000. Assuming they will run at a similar rate for December, for this calendar year, there would be something more than \$8,100,000,000.

The proportion of agricultural products has on the whole somewhat declined, while the total value of exports has increased. Breadstuffs show an increase in value over the preceding year. They are

running this year at the rate of over \$1,000,000,000 as against something like \$920,000,000 for 1919, and, I think, \$165,000,000—I shall have to verify that figure—before the war. That is \$1,000,000,000 against about \$165,000,000.

Meat exports have fallen off, and cotton also, both in physical volume and in value, but the total value of exports and the total physical volume of exports have increased.

Recently I prepared and submitted to a Member of the Senate a statement showing, so far as I could get them, both the value and the physical volume of agricultural exports, and if the committee is interested I shall be glad to file that as a part of my statement.

Senator McCUMBER. We shall be very glad to have you do so, Mr. Secretary.

Secretary HOUSTON. Imports to this country have tended to increase since the armistice, but the deficit each year—that is, the balance each year against the rest of the world—is marked. Roughly stated, we have exported in the last three years—if I may speak of this year as being complete, on the basis I gave—we have exported during the last three calendar years approximately \$22,000,000,000 worth of commodities, and have imported, roughly speaking, \$12,000,000,000 worth, which would leave an apparent balance against the rest of the world, and particularly against Europe, of \$10,000,000,000.

Senator McCUMBER. That would include one year of the war?

Secretary HOUSTON. One year of the war. I say “apparent” for the reason that there are certain offsets that do not appear in the statistics of imports. There is a considerable offset in the form of services in the way of shipping and charges for shipping, in expenditures that our citizens make abroad, probably in the return of securities to this country, and in investments abroad. The best estimate I have been able to get from the Treasury experts as to the probable unfunded or floating indebtedness arising out of the balance of trade is between three and a half and four billions at present, and that is approximately also the estimate that I have seen from foreign sources.

The matter of stimulating exports raises many questions. We have to discover the communities that wish the increased exports, and they have to discover on their part the means of payment for the additional imports they seek. Europe, which is the country chiefly in question, imported prior to the war, as I recall it, 68 per cent of all our exports, and I am rather definitely of the opinion that recently her share of our exports has run from about 60 to 65 per cent. I can not give the exact figure.

The great difficulty in the countries of Europe that some people are thinking about—countries which are the worst hit as a result of the war—is that they have not returned, and will not for a considerable while return, to a state of large production, although their production has increased, as is indicated by their increased exports; also they have not the gold and can not discover the requisite securities on which business men would make loans. I base this statement not merely on my own investigation but also on the report of European experts who recently assembled at the Brussels conference.

Senator SMOOR. Very few American securities are held abroad. Have you any idea how many?

Secretary HOUSTON. I have not.

Senator SMOOT. But it is very small?

Secretary HOUSTON. Yes. The experts who met at Brussels to consider trade and finance reported that the prerequisites to a restoration of trade were peace in Europe, the cessation of fighting, the return to productive industry, the breaking down of the barriers which have been erected, especially among the new States, the location of securities which could be offered for credits abroad.

Senator WATSON. I notice it has been suggested by somebody that a definite fixing of the amount of the indemnity that Germany would have to pay would have a stabilizing effect. What is your opinion as to that?

Secretary HOUSTON. It seems to me obvious that the determination of the indemnity that Germany is to pay the Allies is a matter of first importance, and also the fixing of that indemnity at a reasonable figure. The hanging over a people of an indefinite mortgage or liability is always a depressing and disturbing element. If it is determined and it is put at an unreasonable figure, it will also be a depressing and disturbing element. Until the indemnity is determined I do not see how Germany or individuals in Germany can determine what can be done in the way of furnishing security.

Senator LA FOLLETTE. Do you happen to remember, Mr. Secretary, the recommendation which the Brussels conference made with respect to disarmament?

Secretary HOUSTON. In my annual report I gave the leading resolutions, Senator. Would you like for me to refer to them at this time?

Senator LA FOLLETTE. No. I just wondered whether in this connection you could recall their recommendation. I saw a copy of it, and, as I remember, they all agreed it would be quite impossible to have a revival unless they stopped all expenditure for armament.

Secretary HOUSTON. I will read, if I may, from page 88 of my Annual Report:

The first step is to bring public opinion in every country to realize the essential facts of the situation and particularly the need of reestablishing public finances on a sound basis as a preliminary to the execution of those social reforms which the world demands.

Public attention should be especially drawn to the fact that the reduction of prices and the restoration of prosperity is dependent on the increase of production, and that the continual excess of Government expenditure over revenue represented by budget deficits is one of the most serious obstacles to such increase of production, as it must sooner or later involve the following consequences.

- (a) A further inflation of credit and currency.
- (b) A further depreciation in the purchasing power of the domestic currency, and a still greater instability of the foreign exchanges.
- (c) A further rise in prices and in the cost of living.

The country which accepts the policy of budget deficits is treading the slippery path which leads to general ruin; to escape from that path no sacrifice is too great.

It is, therefore, imperative that every Government should, as the first social and financial reform, on which all others depend;

(a) Restrict its ordinary recurrent expenditure, including the service of the debt, to such an amount as can be covered by its ordinary revenue.

(b) Rigidly reduce all expenditure on armaments in so far as such reduction is compatible with the preservation of national security.

(c) Abandon all unproductive extraordinary expenditure.

(d) Restrict even productive extraordinary expenditure to the lowest possible amount.

That, I think, covers your question.

Senator LA FOLLETTE. I would like to read into the record a few sentences from page 89:

The statements presented to the conference show that, on an average, some 20 per cent of the national expenditure is still being devoted to the maintenance of armaments and the preparations for war. The conference desires to affirm with the utmost emphasis that the world can not afford this expenditure. Only by a frank policy of mutual cooperation can the nations hope to regain their old prosperity; and in order to secure that result the whole resources of each country must be devoted to strictly productive purposes. The conference accordingly recommends most earnestly to the council of the League of Nations the desirability of conferring at once with the several Governments concerned, with a view to securing a general and agreed reduction of the crushing burden which, on their existing scale, armaments still impose on the impoverished peoples of the world, sapping their resources and imperiling their recovery from the ravages of war. The conference hopes that the assembly of the league which is about to meet will take energetic action to this end.

Secretary HOUSTON. On pages 90 and 91 are the resolutions proposed by the committee on currency and exchange. The general thought underlying them is to have those countries which have not heretofore pursued a sound fiscal policy take steps to embark on a sound fiscal and banking policy, and through this and other measures not only to promote industry in every feasible way, through local or domestic efforts, but to establish a basis of credit. Most of the countries of continental Europe engaged in the war apparently did not succeed in establishing from the outset, or from pursuing during the war, such a fiscal system or banking system as this country and England measurably succeeded in pursuing.

I have gone pretty far afield. I was led to this discussion by a desire to point out that the reason why, in my judgment, Europe will not take much more of our products is that she has not the goods or the gold to pay for them and can not offer good securities in requisite quantity for additional credits. One way to enable any country in Europe to take more of our commodities would be to extend its government credit, just as we extended credit to governments during the war, but I have not assumed that this country would desire to resume the extension of Government credits to the governments of Europe. We now have large sums owing us by European governments; and there are people in this country who advocate extension of further credits to Europe who are on record as advocating the cancellation of what Europe now owes us. This does not seem to me to be highly logical.

If Europe can discover a basis for credit—and they are working hard on it—they can take more of our commodities, if they desire them and they can continue to get them financed through ordinary commercial channels. These private agencies are financing \$8,100,000,000, and they financed \$7,900,000,000 last year.

My own judgment is that the resumption of the War Finance Corporation would probably not materially increase the exports to Europe; because, as I say, the business foundation for such additional exports does not exist and nobody has suggested it to me as a desirable thing that the Treasury should lend on bad security or worse security than business men would lend on.



"But," they say, "you would lend to exporters." That is simply carrying the thing a step further. Exporters have to require good security or take bad debts. My own judgment is that it would result, mainly, in the shifting of the financing of these exporters from present financial channels to the Government of the United States. And I have not thought that now, when the war is over, it is desirable to keep alive this war agency and to keep the Government in the banking business.

Senator WATSON. Are we to understand then, Mr. Secretary, that you oppose this proposition to extend credit to Germany to the amount of a billion dollars?

Secretary HOUSTON. I do. I may not have seen the specific proposal.

Senator WATSON. But in general terms—

Secretary HOUSTON. In general terms, I see no justification for it.

Senator SMOOT. I received a copy of the program this morning; I have not had time to read it yet.

Senator McCUMBER. If we were to give here a credit of a billion dollars, where would we get the money?

Secretary HOUSTON. I was coming to that in connection with the operations of the War Finance Corporation. The War Finance Corporation has a book credit in the Treasury of \$365,000,000—something like that.

Senator SMOOT. Three hundred and seventy million dollars and something.

Secretary HOUSTON. Three hundred and sixty-five million dollars. Of course, we have no idle money in the Treasury. We are having to borrow money every little while to meet current bills. There seems to be a sort of impression somewhere that that \$365,000,000 and some other odd sums that people are locating are lying around loose.

Senator SMOOT. That you are keeping them in your pocket?

Secretary HOUSTON. Yes. Of course, that is not true. Only one of two things could happen; either the War Finance Corporation would call upon the Treasury for that book credit and we would have to go out and borrow it on certificates at current rates, or the War Finance Corporation would have to attempt to sell bonds at a rate which might attract the investors. In either case the issues would compete with the regular Treasury issues, because the Treasury is now drawing money from investors from whom the bonds of the War Finance Corporation would draw them. You can not use the same funds twice. Furthermore, I have a shrewd suspicion that those same funds would be used in private ways if the Government did not take them.

So you would not really get anywhere. You can not pyramid resources; and with all the problems confronting us, with the burdens resting upon the Treasury of meeting promptly current bills and of borrowing at times in every large sums, it does not seem to me that we ought to throw on the Government additional burdens, and especially when it is now being definitely planned further to unify the activities of private agencies in financing exports through the formation of export corporations under a law enacted by Congress. One has already been organized and another is in process of organi-

zation, the first with a capital already subscribed, I believe, of something over \$7,000,000 and the second in the process of formation with a capital of \$100,000,000.

These may do much good. They will not furnish a panacea. They will not result in the establishment of war prices for commodities, and I think anybody who would hold that hope out to the farmer would be his worst enemy. They should help to unify commercial activities. They may be able to discover and develop in more orderly fashion proper business bases for credit, and I very much hope they will proceed and will function soon in full and liberal measure.

Senator WATSON. Of what advantage is it for them to sell four or five millions of bushels of our wheat abroad, roughly speaking, if we bring in forty-five or fifty millions of bushels from Canada at the same time?

Secretary HOUSTON. Before I try to answer that let me not forget a thought which I meant to try to bring out in connection with what I have been saying. I think it is especially questionable whether, through these or any other efforts, the export, particularly of agricultural products to Europe, will be very greatly increased. Before the war the exports of our principal agricultural products were relatively small. Our five-year average export of wheat and wheat equivalent was 105,000,000 bushels. Giving my offhand recollection of the figures, the total export value of breadstuffs before the war was about \$165,000,000; meat products, \$146,227,000; and cotton, \$610,000,000. The first thing which the thirty millions or forty millions of men did when they quit fighting after the armistice was to think about something to eat, and they went to work to try to produce foodstuffs in Europe. They have succeeded in fair measure. France, I am told, will be very nearly self-sufficient in the matter of foodstuffs. Germany will not be anything like normal, but she has had a very large production of one of her staple commodities—potatoes. Other countries have increased their food supplies.

Furthermore, shipping has opened up throughout the world. Australia and South America, especially Argentina, which were practically shut out of the world's markets during the submarine activity, have begun to come back into the market and Europe is now seeking what she wishes and find means to pay for where she can get it the cheapest. It should be noted that while the total takings from this country have increased this year, agricultural exports have fallen off. Now, if Europe had wanted them she would have increased them at the expense of the things which were not necessary to her actual existence. She arranged to take more of our goods, but she exercised her option by taking fewer agricultural commodities.

As to the question you asked me a moment ago, Senator Watson, I do not want to enter upon a discussion of protection. I will simply say this: That while our total exports of agricultural products last year were approximately \$1,500,000,000, our total imports were \$4,000,000,000, and while there are larger imports of certain farm products, it would be a rather dangerous game to begin shutting off imports of agricultural products when our exports of the same commodities are about three times the imports.

Senator McCUMBER. How do our imports of wheat in 1919, for instance, compare with our imports in 1920, if you recall?

Secretary HOUSTON. I can not give you the figures, Senator.

Senator McCUMBER. It was reported the other day that in two months, I think, we imported from Canada twenty times as many bushels as we imported in the entire previous year.

Secretary HOUSTON. Well, not to get away from the main problem—

Senator McCUMBER. That is a little afield from your discussion, I admit, Mr. Secretary.

Secretary HOUSTON. I have attempted to give my objections to the revival of the War Finance Corporation. I believe that it will raise false hopes on the part of the very people who are expecting the most from it, it will have the unfortunate effect of keeping the Government in the banking business, and cause a shifting of the financing from ordinary channels to the Government.

Senator McLEAN. How much money would you have to raise immediately?

Secretary HOUSTON. I have no means of knowing. I can only say that the loans of the War Finance Corporation under the amendment up to the time we suspended operations were very small—slightly over \$46,000,000 as I recall it. And I have no doubt that if the corporation were to resume many of the same people would come back to get financed on the Government's credit rather than in the ordinary ways. What the demand would be I have no means of knowing. If it were relatively small it would not accomplish any particular purpose; if it were large it would involve the Government in further borrowing to that extent.

Senator SMOOT. Was there not a board organized during the war that loaned five times as much as the War Finance Corporation?

Secretary HOUSTON. I am speaking now of the amendment, giving power to finance exports.

Senator McLEAN. Do you know what the total of our private commitments abroad now is? We have loaned something like ten billions to the governments. Do you know what the total of the private commitments is?

Secretary HOUSTON. My statement a short time ago was that the unfunded commercial balance is between three and a half and four billions.

Senator SMOOT. What I was speaking of was the fact that the Government had a board, and I think it was in the Treasury Department, for the purpose of making loans to assist concerns in this country.

Secretary HOUSTON. The War Finance Corporation had that power. Nearly every power of the War Finance Corporation was conferred to permit aid to businesses of certain sorts that were essential to the successful prosecution of the war. The war was successfully prosecuted by the 11th of November, and those powers, it would seem, lapsed.

Senator SMOOT. Mr. Thompson was head of the board that I have reference to. Was it the War Loan Board?

Secretary HOUSTON. I do not remember.

Senator SMOOT. They went out without any fuss and feathers, and I think they loaned about \$250,000,000.

Secretary HOUSTON. I have undertaken to state certain fundamental reasons for my belief that the corporation ought not to resume activities. If it functions, and it functions through the shifting process, it will raise the objection that I have to these other schemes; it will impose unusual burdens on the people of the United States at this time. It all comes to the same thing, whether you ask the Government to embark on a large additional borrowing program to attempt to stimulate exports to countries that can not put up securities, or whether you vote a bonus of a billion or two billions to soldiers.

Anything that is done now to add to the burdens of the Government will impair the ability of the Government to extinguish its floating indebtedness, to fund the Victory loan when it falls due, on reasonable terms, and will generally, if you resort to borrowing, tend to inflation of credits, and to hamper private enterprises. If you impose heavier taxes you will add so much more to the irritation of the taxpayers and to the cost of living. You can not do these things without imposing burdens upon the 105,000,000 of the American people.

Senator WATSON. Do you intend that remark to be of general application, or is it intended to apply to this bonus measure?

Secretary HOUSTON. They all come to the same thing so far as financing is concerned, in my judgment. I think the Congress is going to be pretty hard put to it for some time revising taxes and considering estimates. Taxes should be revised in the interest of simplicity and equity. The appropriations, no matter how much you try to cut them, will still be large. Some of the estimates you can not cut very much. The largest cuts might perhaps be made in those of the Army and Navy, if you decide to have a very different Army and Navy from those that apparently have been projected.

Senator WATSON. Do you include in the receipts of the Government any interest on foreign indebtedness to us?

Secretary HOUSTON. No interest on the foreign indebtedness is included.

Senator SUTHERLAND. Has any of it been paid?

Secretary HOUSTON. Substantially all of it which accrued up to April and May, 1919, as indicated in the annual report.

Senator WATSON. I saw those figures, and in that connection I wanted to ask you, Mr. Secretary, what is the likelihood of the payment of that interest?

Secretary HOUSTON. That raises a very interesting and difficult question.

Senator WATSON. Is that a question that you do not care to go into publicly? If so, I will not ask it.

Secretary HOUSTON. In part I have no objection.

Senator WATSON. I wish you would answer it as far as you like.

Secretary HOUSTON. As the members of the committee are aware, the debt now exists in the form of demand notes, which the Treasury holds, which are properly signed by duly accredited representatives of the various Governments. The laws under which those loans were extended to provide for the funding of the demand notes, and authority was conferred as a part of the funding process to defer interest payments for the time being. We have been negoti-

ating with the different Governments with a view to a satisfactory funding arrangement which would extend the payment of the principal for a considerable period and provide for the payment of interest after a certain period. The negotiations have not gone to my satisfaction to date, and have not been concluded, as I hoped they would be. I am not able to state to the committee now when they will be completed.

It is also doubtless known to the committee that that part of our debt, approximately \$10,000,000,000, is not covered by the ordinary sinking fund but is to be provided for out of foreign payments.

Senator McCUMBER. Mr. Secretary, on page 57 of your report you give an itemized statement showing the amount of interest heretofore paid by the foreign Governments on advances made to them by the United States Treasury. You show nearly \$11,000,000 by Belgium, a little over \$1,000,000 by Cuba; France, \$128,000,000; Great Britain, \$233,000,000; Italy, \$57,000,000; Russia, \$4,000,000.

Now, have those interest items been paid in cash, or are there certain credits that have been given them on account of matters that we were owing them for?

Secretary HOUSTON. All interest shown on page 57 of the annual report for the fiscal year 1920, as having been paid by foreign Governments, was paid in cash. To the extent that it was not paid from other resources of the Governments concerned, it was paid from the proceeds of loans made by the Treasury. The Treasury was still making substantial advances to foreign Governments in the spring of 1919. Several of the Governments, by reasons of the control which they exercised over the foreign exchange transactions of their peoples, or through other means, controlled dollars in addition to those which they received by way of advances from the Treasury. It is not possible, therefore, to identify the particular dollars paid by way of interest as having been received from the United States loans. Up to the spring of 1919, the amount of interest owed the Treasury by the foreign Governments to which we were making advances was one of the considerations taken into account in determining the amount of advances the Treasury was willing to make.

Senator WATSON. There was some money loaned abroad not provided for in the sinking fund and supposed to be taken care of in the interest they owed us, and in so far as they failed to pay us interest you are compelled to take that money out of the ordinary receipts of the Treasury?

Secretary HOUSTON. Yes, sir.

Senator McCUMBER. Mr. Secretary, from your report it appears that there are outstanding certificates maturing December 15, 1920, of \$700,000,000, and others maturing January 3 and January 15, 1921, of \$300,000,000, and then interest on Liberty bonds or certificates of \$140,000,000, making \$1,140,000,000.

On December 6, 1920, the cash in the Treasury was \$160,000,000, and you estimated that \$650,000,000 would be retrieved from the installment due December 15, making \$810,000,000. The other amounting to \$140,000,000 would leave a deficit of \$329,000,000, almost \$330,000,000, but that supposes every cent to be drawn out of the Treasury. With a workable balance in the Treasury of 2,000,000 that would mean \$579,981,000 that would have to be paid in some other way.

Would you mind telling us—

Secretary HOUSTON. You are speaking now as of December 15?

Senator McCUMBER. December 15 and up to January 15.

Secretary HOUSTON. We have recently borrowed \$589,000,000.

Senator McCUMBER. Borrowed them for what length of time?

Secretary HOUSTON. Part for a year, and part for six months.

Senator McCUMBER. That would simply carry the deficit—

Secretary HOUSTON (interposing). In part, would carry on the obligation. Looking forward, as I have been trying to do to get a line upon the matter, outlining it in the report for a period of years on the basis of estimates of expenditures submitted, and on the basis of estimated receipts, including the public debt, we come down to the end of the fiscal year 1921 with a gross deficit of about \$2,000,000,000.

Senator McCUMBER. Will you just explain at this point what you mean by an income from the public debt? You spoke of an income, including that from the public debt. Will you kindly explain that so that the members of the committee may understand its meaning?

Senator SMOOT. It would be some Liberty bonds and Victory notes, receipts from war savings securities, deposits to retire Federal Reserve Bank notes and national bank notes and some postal savings bonds.

Senator McCUMBER. You have purchased your own obligations, and you count the interest on that obligation as so much earned?

Secretary HOUSTON. This is explained in the annual report, page 274. Now, at the end of the next fiscal year, 1922, on the same basis, there is an estimated gross deficit of, in round numbers, about \$1,448,000,000. I might say in passing, in reference to one item which you mentioned, that the estimate of the Treasury as to the probable receipts for the current quarter of \$650,000,000 has now been exceeded slightly. That is interesting in view of the representations that business could not find means to meet tax payments.

Senator McCUMBER. The President, in his annual message, gives us another item, which I assume from reading the message meant that it was an item that must have immediate care, and that was \$650,000,000 for railroad guaranty.

Secretary HOUSTON. That is included in the estimates I have given you.

(Thereupon, at 11.55 o'clock a. m., the committee adjourned to meet at 10.30 o'clock a. m., on Monday, December 27, 1920.)



# **SOLDIERS' ADJUSTED COMPENSATION**

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## **HEARINGS**

**BEFORE THE**

### **COMMITTEE ON FINANCE UNITED STATES SENATE**

**SIXTY-SIXTH CONGRESS**

**THIRD SESSION**

**ON**

## **H. R. 14157**

**AN ACT TO PROVIDE ADJUSTED COMPENSATION FOR VETERANS  
OF THE WORLD WAR; TO PROVIDE REVENUE THEREFOR;  
AND FOR OTHER PURPOSES**

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### **PART 5**

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**WASHINGTON  
GOVERNMENT PRINTING OFFICE  
1920**



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## SOLDIERS' ADJUSTED COMPENSATION.

MONDAY, DECEMBER 27, 1920.

UNITED STATES SENATE,  
COMMITTEE ON FINANCE,  
*Washington, D. C.*

The committee met, pursuant to call, in the committee room in the Capitol at 10.30 o'clock a. m., Senator Porter J. McCumber presiding.

Present: Senators McCumber (acting chairman), Smoot, La Follette, Dillingham, McLean, Curtis, Sutherland, and Gerry.

Present also: Hon. David F. Houston, Secretary of the Treasury, Dr. T. S. Adams, and Mr. John E. Walker.

Senator McCUMBER (acting chairman). Mr. Secretary, I believe that the intention was now to take up the tax provisions of this bonus bill, and we will probably do just as well if we began right at the beginning of those tax propositions that are laid down and get your opinion on them.

### STATEMENT OF HON. DAVID F. HOUSTON, SECRETARY OF THE TREASURY—Resumed.

Secretary HOUSTON. Have you had an estimate, Mr. Chairman, of the possible cost of the various proposals in the bill?

Senator McCUMBER. I have not read over the House report on it. I presume that they covered that. But we have not completed the hearing, and we would like to hear from you, if you have anything to say on it, and we will complete that proposition before we take up the tax matter.

Secretary HOUSTON. I have an estimate furnished me by the Treasury actuary, which is as follows for the direct cost:

Title II of the bill providing for the payment of a cash bonus would cost \$1,343,000,000; Title III, providing for the issuance of insurance certificates, if all who are entitled were to avail themselves of the provision, would cost \$4,534,000,000; Title IV, providing for training, if all who are entitled were to avail themselves of the provision, would cost \$1,880,000,000; and Title V, providing for aiding the veterans to purchase or improve a home or farm, the same amount—that is, \$1,880,000,000.

The actuary adds that Title VI, providing for land-settlement scheme, contains uncertainties which makes it impossible for him to estimate the cost, and also this: "As these schemes are optional, veterans will choose the one which appeals to them. The more re-

sponsible would undoubtedly choose to benefit under Title III. It is estimated that, depending upon the number who would accept the various schemes, the total direct cost to the Government would be, as estimated, \$2,275,000,000, with an additional cost of administration of \$25,000,000."

He points out that in addition to these direct costs there would be very considerable indirect costs, arising from the fact that not a few of those who might receive aid in cash might perhaps not exert themselves as actively as they would if they did not receive the aid; that the conditions of labor, therefore, might become more difficult, affecting production, and that costs would advance. But, of course, it is very difficult to indicate what the indirect costs might be. So I shall not undertake to give figures.

The House report, Mr. Chairman, contains estimates furnished the committee by the actuary as to the possible yields of the various taxes carried in the bill on the basis of conditions as the actuary saw them last spring. Perhaps it would save time to refer to the page of the committee report which contains those estimates—page 7. The report, toward the close, reads as follows:

\* \* \* It is estimated that the five tax provisions of the bill herein recommended will yield in a period of three years additional revenue aggregating \$1,276,500,000, a sum ample to carry out the purposes of the bill.

And then it sets out the possible yield of each of the items.

An additional surtax on individual incomes of 1 per cent of the amount by which the net income exceeds \$5,000 and does not exceed \$10,000; 2 per cent from \$10,000 to \$26,000, and 3 per cent of incomes in excess of \$26,000. (This provision is estimated to yield \$108,000,000 per annum.)

2. A tax equivalent to one-fifth of 1 per cent on the sale of stocks and bonds. (This provision is estimated to yield \$190,000,000 per annum.)

3. A tax equivalent to one-half of 1 per cent on the sale of real estate. (This provision is estimated to yield \$50,000,000 per annum.)

4. An increase of approximately 15 per cent in the existing tax on cigars and tobacco and of approximately 25 per cent of the tax on cigarettes. (This provision is estimated to yield \$55,000,000 per annum.)

5. An excise tax on corporations issuing stock dividends subsequent to March 15, 1920, equivalent to 10 per cent of the value of stock so issued. (This provision is estimated to yield \$45,000,000 on stock dividends already declared and \$7,500,000 per annum on future stock dividends.)

I do not know that I should have any very valuable views on these specific proposals. My thought has rather turned to the consideration of the simplification of the existing tax laws and possible methods of raising revenue to meet existing burdens on the Government. I have not been giving specific thought to methods of meeting these additional proposed burdens. I do not know to what extent Dr. Adams and his associate, Dr. Walker, have considered these matters, but they have been actively and intimately dealing with tax matters for the Treasury, and I shall be very glad to have them take up any specific points which you may wish them to discuss.

Senator McCUMBER. That is very well, Mr. Secretary, but I believe you stated you had been considering the question of taxation to take care of present conditions?

Secretary HoustON. Yes, sir.

**Senator McCUMBER.** And possibly before we call Dr. Adams we will hear from you on that proposition of what is to be done in the present situation, irrespective of this particular bill, and then take up the tax question.

**Secretary Houston.** I undertook at the last meeting to outline the financial situation in as summary a fashion as I could along the lines followed in the annual report. Perhaps I can save time by following this statement which I have in my hand.

I have recommended that the revenue from taxation be maintained after this fiscal year and until the close of the fiscal year 1923, on a level of at least \$4,000,000,000. This represents a substantial reduction of aggregate taxes collected from the people. During the fiscal year 1920 the internal tax receipts amounted to \$5,400,000,000, and it is estimated that for the fiscal year 1921 they will amount to \$4,700,000,000. The proposed \$4,000,000,000 levy, therefore, represents a reduction of \$1,400,000,000 from the level of 1919, and a reduction of \$700,000,000 from the level of 1921. What it means in brief is that a system of taxation based upon the income tax, adjusted to ability to pay, a system progressive for the most part, bears less heavily upon the taxpayer and yields less revenue, as it must when the income of the country declines.

I have recommended the reduction of the extreme income surtaxes, not to exempt the rich but to tax the rich. At present, by investing in tax-free securities and by the use of other devices the very wealthy can and do avoid taxation. The taxable income of taxpayers having net incomes over \$300,000 a year, fell from \$992,972,985 in 1916 to \$392,247,329 in 1918. This condition, I have suggested, may be met either by reducing the upper surtaxes to a lower general level, or by reducing the upper surtaxes with respect to that part of the income which is saved and reinvested in taxable property or business, leaving the present rates, if necessary, upon income which is wasted or used in ostentatious and unnecessary consumption.

I have recommended that the excess-profits tax should be replaced, primarily because it is losing its productivity, and promises in the near future to become a statute of exemptions rather than an effective tax. Moreover, the tax is so complicated that it imposes upon both taxpayers and administrative authorities burdens too difficult to be permanently carried. I recommend that it be replaced—not merely repealed—with a simpler and more certain tax upon corporation income or profits. I suggest in this connection for the consideration of the Congress either a flat additional tax on corporation profits, such as has recently been adopted in the United Kingdom, or a tax upon the undistributed profits of corporations under which, if adopted, corporations should be expressly authorized to pay taxes through their stockholders, as partnerships are now taxed through their members. By either of these proposals the income tax on corporations—and, of course, we understand that the excess-profits tax rests on corporations—could be made a fair equivalent for the income tax as now applied in effect to individuals, partnerships, and personal-service corporations.

I recommend the retention of a simple system of specific sales or consumption taxes designed to collect a moderate proportion of the aggregate tax levy from a few highly productive taxes on nonessentials. Miscellaneous sales or excise taxes shifted in main to the consumer supplied in the last fiscal year about 20 per cent of the total taxes, or about 25 per cent if customs duties are counted as consumption taxes.

In view of the financial needs of the Government these proportions may properly be maintained or even increased to perhaps 30 or 35 per cent; but no radical increase such as doubling the consumption taxes would, in my opinion, be justified. There must be a fair balance in the tax system as a whole between taxes on the consumption of the masses and taxes on wealth, income, and business. It would be especially unfortunate to substitute sales taxes, of any variety, for taxes upon corporation profits, which are required both to balance the tax system and to equalize taxes on corporations with the progressive income tax as applied to unincorporated business concerns. To place such an unfair load on the masses would violate all the recognized principles of justice as to the division or distribution of the total tax burden. I do not oppose all sales taxes; but I have recommended the repeal of those sales taxes which are difficult to enforce, unduly vexatious, and of inconsiderable yield. The entire tax system, including the existing specific sales taxes, should be simplified, not further complicated by the adoption of a turnover or general sales tax which would require a huge additional administrative force if administered properly and would result in widespread evasion if not thoroughly administered.

The excess profits and other taxes, which, in my opinion, should be replaced, would yield in the future less than \$730,000,000 a year. In order to meet this reduction or deficit I have mentioned—merely for the convenience of the committees of Congress which will be directly responsible for tax revision—a large number of possible new or additional taxes, including higher income taxes and additional specific sales taxes upon luxuries and nonessentials, capable of yielding over \$2,000,000,000 a year. I have not recommended these taxes—I have mentioned them as possible new sources from which to make selections, if it is necessary to take that course.

Except for some obvious misunderstandings or misstatements, it would be unnecessary for me to repeat what is so emphatically stated in my annual report, that sound public policy demands the exercise of the most rigid economy. Unless every unnecessary expenditure, including the proposed appropriation for the payment of soldiers' bonuses, be avoided, and unless every official public estimate or request for appropriation be kept at a minimum, a sound plan of tax revision could be carried out, if at all, only with very great difficulty and the successful financial conduct of the Government during the next three years would be rendered exceedingly difficult, if not imperiled.

I think that while the legislation passed during the war was hastily passed and contains defects, it was based on a sound principle. In the main, it established in Federal taxation, for the first time in our history, a sound policy—that is, a progressive tax system based on the ability of the taxpayer to bear the burden. My suggestions look to the simplification of these laws in the light of experience and to methods of meeting possible reductions incident to steps of simplification or other action which the Congress may see fit to take. I have suggested the elimination of certain undesirable sales taxes which we now have and the concentration of action on such sales of commodities of a luxury or nonessential sort as will yield considerable sums, and I have proposed certain substitutes for the excess-profits tax on corporations.

Senator McCUMBER. Mr. Secretary, you have given us the pressing situation quite clearly. The matter before us now is this bonus bill. We have got to assume either that it will not or that it will pass. Assuming that it will pass, notwithstanding the present state of the Treasury, the committee would like to have your suggestions as to how it could or would be met by you.

Secretary HUSTON. I am not now prepared myself, Mr. Chairman, to make suggestions as to how the additional revenue can be secured.

Senator SMOOT. Congress will have to provide for that.

Senator McCUMBER. However, Congress has to provide this which the Secretary has also recommended, but nevertheless we take the Secretary's advice.

Secretary HUSTON. I shall be glad if the gentlemen who are with me have any suggestions to make to have them give their views. I have not had time to give the requisite study to plans for meeting this additional proposed burden. I should simply take up the time of the committee with views I have not myself matured.

Senator McCUMBER. Does any one of the committee desire to ask the Secretary any questions?

Senator McLEAN. This bill provides for an additional surtax. From your statement just made with regard to the general situation, I take it that you are opposed to an additional surtax?

Secretary HUSTON. I suggested, as I stated, the reduction of the level of the surtaxes, for the reason that the sources themselves are drying up. I do not know how you would get the additional money in the circumstances. Perhaps these gentlemen who have been intimately in touch with these matters may have some views.

Senator McCUMBER. Dr. Adams, we will hear from you, then, on the question of the proposed taxation in the bill itself, or any other suggestions which you think the committee ought to have.

**STATEMENT OF DR. T. S. ADAMS, STATISTICAL EXPERT, TREASURY DEPARTMENT.**

Mr. ADAMS. Senator, I have nothing particular that I want to say. I think on the points which have been raised these suggestions might possibly be made: The Secretary's report contains a statement of a number of taxes, sufficient to yield, I think, more than \$2,000,000,000 a year. Those are by way of suggestion to the committees in canvassing possible new taxes. In the Secretary's report, at pages 44 and 45, there are lists of taxes, which he has not recommended but which would seem to him a little less evil than some other proposals that have been made, which are capable of yielding, as I have said, considerably over \$2,000,000,000 a year.

Senator McCUMBER. Under the present situation?

Mr. ADAMS. Under the present situation; yes.

Senator McCUMBER. The probability of business being very much lessened in the next year or so, or depressed for some time to come?

Mr. ADAMS. In general, they take account of the shrinkage, Senator. The very latest movements, however, were not known when the estimates were prepared. From the very latest statistics, curiously enough and contrary to everything we had expected, the sale of cigarettes is falling off. We had always thought of cigarettes as

the most inelastic commodity with which we had to deal and the one which would most easily stand increased taxation. I am not yet thoroughly convinced that they would not, but the most recent statistics show that there is apparently a falling off in the cigarette consumption.

The yield, however, of the automobile tax—and that will have to be studied, of course, because it is surprising—but the most recent figures with respect to automobiles, candy, and many of these taxes show for November, 1920, a larger yield of the tax and suggest larger sales, if anything, than for November, 1919, one of the best periods in the history of commerce.

I will cite some of those figures, Mr. Chairman, with the idea that they may be of interest:

The tax upon cigars, for instance, is holding up and shows a yield of \$4,848,000 for November, 1920, as compared with \$4,708,000 for November, 1919; on the other hand, cigarettes, small—the larger cigarettes are negligible, practically—yielded \$10,587,000 in November, 1920, as contrasted with \$14,307,000 in November, 1919. Tobacco, smoking and chewing, showed \$3,332,000 November, 1920, as contrasted with \$5,933,000 for November, 1919; the entire yield of the tobacco taxes for November, 1920, is only \$19,371,000 as contrasted with \$25,769,000 for November, 1919. So here is one item which in the very short time intervening between the compilation of these figures and the preparation of the Secretary's report would have to have some little revision.

Senator McCUMBER. Do not those figures approximately agree with the decrease in consumption of very many other articles, owing to closer times and the desire to economize?

Mr. ADAMS. Senator, it is very dangerous to generalize. Our experience in the past suggested that cigarettes were the one thing we could depend upon to go on expanding and increasing, and we have suggested an increase in the cigarette tax on that account, in the belief that it was an article that could stand heavier taxes without the industry paying the increase.

Senator McCUMBER. You indicate there that the probabilities are that you could receive a higher amount from the automobiles.

Mr. ADAMS. I will give you some figures on that—

Senator McCUMBER (interposing). I was going to say that the information I have from various automobile dealers is that the orders for 1921 are very, very much lower than they were for the corresponding months of 1920.

Mr. ADAMS. I had thought so, Senator. That was my own impression. But I will give you the figures which seem to show rather a surprising continuation of the prior volume of sales there. The tax yield on automobiles, motor cycles, and accessories for November, 1920, was \$12,485,000, and for the corresponding month in 1919, \$11,263,000.

Senator SMOOT. Was that on sales?

Mr. ADAMS. That is on sales.

Senator SMOOT. Of course, the sale prices were higher in 1920 than in 1919.

Mr. ADAMS. Higher in 1920 than 1919?

Senator SMOOT. Yes.

Mr. ADAMS. There were some reductions, you know, Senator.

Senator SMOOT. November reductions?

Mr. ADAMS. This is only one month, November, 1920, as contrasted with November, 1919.

Senator LAFOLLETTE. Have you the other months there?

Mr. ADAMS. I have them here, but I thought that was most significant, Senator.

Senator LAFOLLETTE. Because of the decline in prices toward the end of the year?

Mr. ADAMS. We are moving rapidly. They are confirmed by the earlier figures. The yield of automobile tax for the four months, July to October, 1920, was higher than for November, 1919, to me a most surprising thing, I am bound to say.

Senator LAFOLLETTE. Have you in mind, Dr. Adams, the time when the price was cut? There was a general movement toward lower prices over the country, starting—

Mr. ADAMS (interposing). My impression about July.

Senator LAFOLLETTE. I was trying to recall about when it was.

Senator SMOOT. The first one was July, but others went along.

Senator LAFOLLETTE. They followed pretty rapidly.

Mr. ADAMS. That shows it ought to be investigated, but the figures interested me so much that I thought they might interest also the committee.

The freight and express and similar charges covered by Title V of the act are increasing quite rapidly, as would be expected by reason of the increase in the rates. The telegraph taxes also and the other public-utility taxes are all increasing.

Coming now to some of the other and more interesting items, the figures for the taxes on carpets and rugs, picture frames, and the so-called luxuries were \$2,136,000 for November, 1920, as contrasted with \$1,340,000 for November, 1919.

The tax on jewelry shows \$1,661,000 for November, 1920, as contrasted with \$1,583,000 for November, 1919.

Perfumeries, cosmetics, and medicinal articles, \$504,000 in November, 1920, as contrasted with \$512,000 in November, 1919. That is a small decline. That is one of the taxes which the Secretary has recommended should be either abolished or radically changed.

The near-beer tax, so-called, collected under section 623 of the statute, yielded \$2,900,000 in November, 1920, and \$1,716,000 in November, 1919, a large increase. In other words, the near-beer habit apparently is not decreasing; it is increasing.

Senator LAFOLLETTE. Perhaps the percentage is increasing. [Laughter.]

Senator SMOOT. Doctor, do you believe there were twice as many rugs and carpets sold in November, 1920, as in 1919, in the United States?

Mr. ADAMS. The increase was about 50 per cent.

Senator SMOOT. Do you think even that is possible? Is there not some mistake in regard to the reports that may have been made on that?

Mr. ADAMS. You have always got to figure on this Senator—that there may be an increase, or the opposite movement, in the efficiency of the tax collection.

Senator SMOOT. More than likely that is where it is, rather than the amount or yards of carpet.



Mr. ADAMS. That includes all those miscellaneous goods covered by section 904. I think it is possible that to some extent the drop in prices may have stimulated sales.

Senator SMOOT. I was going to say that November would catch all of these sales, you know, that the merchants have been compelled to put forth. November is the month, perhaps more than any other month in the year, where those sales were general, and that may account for the November figures. But taking the whole year, I do not think it is possible.

Mr. ADAMS. The movements or changes which I have been describing apply not only to November, but to the five months' period July–November, 1920, as contrasted with the same five months in 1919. We have the aggregates for July–November, and I can cite those figures if you want them.

Senator CURTIS. Put them in the record.

Mr. ADAMS. I do not know as I need to go on. But it is interesting to note the same increases are shown for the taxes on admission and dues—\$7,982,000 for November, 1920, as contrasted with \$5,877,000 for November, 1919. This reflects an actual increase in admissions, although there has been some improvement in the collection of the tax.

Senator SMOOT. Not only that, but the prices for admission have increased in a great many of these moving-picture concerns. Take it in Washington here, and I think that is only a sample of what is taking place all over the United States. I know wherever I have been the price has increased.

Mr. ADAMS. Chicago made a cut last week.

The lesson which I personally draw from this is that you have got to study each particular line of business with some care before you can tell just what will happen, because the movements are not as simple or as uniform as one would expect from general knowledge.

The candy tax for the period July to November, inclusive, yielded \$9,346,000 in 1920, and for the corresponding months in 1919, \$8,452,000.

These are preliminary figures which I quote, they having just been finished at half past 9 this morning, and so I may have to change them somewhat; but there will be no appreciable changes.

(The table covering in detail the above figures quoted by Dr. Adams are here printed in full, as follows:)

# SOLDIERS' ADJUSTED COMPENSATION.

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Comparison of the internal revenue receipts (1) for the month of November, 1919 and 1920, and (2) for the 5-month periods from July 1, 1919, to Nov. 30, 1919, and July 1, 1920, to Nov. 30, 1920.

Sources of revenue.	Receipts for month of November, 1919.	Receipts for month of November, 1920.	Increase.	Decrease.	Receipts from July 1, 1919, to Nov. 30, 1919.	Receipts from July 1, 1920, to Nov. 30, 1920.	Increase.	Decrease.
<b>INCOME AND EXCESS PROFITS.</b>								
Individuals, partnerships, and corporations.....	\$49,740,230.31	\$70,560,306.12	\$20,820,075.81		\$1,097,244,906.96	\$634,061,838.83		\$103,182,968.43
<b>ESTATES.</b>								
Transfer of estates of decedents.....	6,332,263.04	10,799,592.69	4,467,329.65		42,389,486.74	59,451,103.16	\$17,061,676.42	
<b>DISTILLED SPIRITS.</b>								
Distilled spirits (nonbeverage).....	3,571,501.59	7,467,541.22	3,896,039.63		15,714,581.62	44,242,589.77	28,528,008.15	1,550,017.52
Distilled spirits (beverage).....	117,866.44	30,166.93		\$87,699.51	1,803,024.56	293,007.04		89,325.75
Rectified spirits or wines.....	7,584.39	1,857.88		5,726.51	106,889.38	17,563.43		64,648.06
Still or sparkling wines, cordials, etc.....	318,693.15	137,216.24		181,476.91	1,241,833.93	1,176,985.87		
Grape brandy used in fortifying sweet wines.....	2,869.11	295,319.82	292,450.71		42,927.68	360,659.04	317,731.36	
Floor taxes:								
Distilled spirits.....	122,336.16	34,212.33		88,123.83	22,228,909.09	152,970.03		22,073,839.06
Rectified spirits or wines.....	2,557.85	143.86		2,413.72	75,950.14	1,308.04		74,641.20
Still or sparkling wines, cordials, etc.....	4,240.79	83,303.60	79,053.81		153,982.97	167,457.83	13,874.86	
Grape brandy used in fortification.....					55,223.57			55,223.57
Rectifiers: retail and wholesale liquor dealers; manufacturers of stills, etc. (special taxes).....	97,119.75	36,899.43		60,220.35	1,487,746.37	480,243.38		1,007,502.99
Stamps for distilled spirits intended for export.....	4,450.25	260.90		4,189.35	18,105.15	4,891.89		13,503.26
Case stamps for distilled spirits bottled in bond.....	12,726.00	18,586.20	5,860.20		38,492.10	145,226.61	106,734.51	
Total.....	4,261,954.24	8,105,508.41	3,833,554.17		42,865,156.56	47,002,904.03	4,037,747.47	
<b>FERMENTED LIQUORS.</b>								
Fermented liquors (barrel tax).....	362,345.50			362,345.50	41,132,071.20	9,975.43		41,122,086.77
Brewers: retail and wholesale dealers in malt liquors (special taxes).....	4,995.29	198.41		4,796.88	180,985.55	6,573.03		174,412.52
Total.....	367,340.79	198.41		367,142.38	41,313,056.75	16,548.46		41,296,508.29
<b>NATIONAL PROHIBITION ACT.</b>								
Taxes collected, including offers in compromise, penalties, etc.....	2,675.00	126,401.16	123,726.16		2,675.00	540,889.32	538,214.32	
Total.....	2,675.00	126,401.16	123,726.16		2,675.00	540,889.32	538,214.32	

Comparison of the internal revenue receipts (1) for the month of November, 1919 and 1920, and (2) for the 5-month periods from July 1, 1919, to Nov. 30, 1919, and July 1, 1920, to Nov. 30, 1920—Continued.

Sources of revenue.	Receipts for month of November, 1919.	Receipts for month of November, 1920.	Increase.	Decrease.	Receipts from July 1, 1919, to Nov. 30, 1919.	Receipts from July 1, 1920, to Nov. 30, 1920.	Increase.	Decrease.
<b>TOBACCO.</b>								
Cigars, large.....	\$4,708,223.07	\$4,848,603.38	\$140,380.31		\$20,514,635.37	\$25,237,411.81	\$4,722,776.44	
Cigars, small.....	85,621.22	85,539.75		\$81.47	422,912.25	407,982.37		\$14,929.88
Cigarettes, large.....	34,875.79	30,657.58		4,178.21	114,430.95	155,933.36	41,502.41	
Cigarettes, small.....	14,307,709.96	10,587,616.30		3,720,093.26	64,764,835.44	52,651,034.64		12,113,800.80
Snuff of all descriptions.....	467,570.96	294,566.43		173,004.53	2,741,517.45	2,465,065.34		276,452.11
Tobacco, chewing and smoking.....	5,933,716.14	3,332,457.83		2,601,258.31	32,062,506.14	26,355,115.64		6,707,390.60
Cigarette papers and tubes.....	40,611.06	73,513.03	32,901.97		630,291.13	614,596.95	14,305.82	
Floor taxes (cigars, cigarettes, tobacco, and snuff).....	62,011.66	25,612.14		36,399.52	3,661,709.53	69,646.55		3,592,062.98
Additional taxes on cigar and cigarette stamps.....	36.02	28.34		7.68	1,636.42	1,935.93	299.51	
Additional taxes on tobacco and snuff stamps.....	127.30	12.70		114.60	1,212.09	608.85		603.14
Manufacturers of cigars, cigarettes, and tobacco (special taxes).....	129,457.92	92,614.21		36,843.71	841,591.23	1,198,318.45	356,727.22	
Total.....	25,769,920.70	19,371,221.69		6,398,699.01	125,757,278.00	108,187,649.69		17,569,628.31
<b>REVENUE ACTS OF 1917 AND 1919.</b>								
Documentary stamps, etc.:.....								
Bonds, capital-stock issues, conveyances, etc.....	4,675,594.12	4,326,939.69		32,654.43	20,942,177.24	23,032,321.08	2,240,143.84	
Capital-stock transfers.....	1,529,352.46	661,354.59		867,997.87	6,218,013.87	2,969,376.95		3,228,636.92
Sales of produce (future deliveries).....	774,466.47	632,352.39		92,054.08	3,591,662.00	3,748,544.92	157,482.92	
Playing cards.....	23,275.84	184,041.92		65,233.92	1,035,573.00	1,232,213.52	196,640.52	
Transportation of freight.....	80,199.07	15,300,834.01	5,635,949.43		47,869,060.66	62,561,766.78	14,692,676.12	
Transportation of express.....	7,514,645.34	318,015.82	237,816.75		5,618,498.09	6,591,291.02	972,792.93	
Seats, berths, and staterooms.....	889,474.61	8,879,599.79	1,364,974.45		34,450,403.61	44,949,370.67	6,498,767.06	
Oil by pipe lines.....	441,573.78	685,503.16	243,931.38		3,062,036.62	3,396,263.32	324,206.70	
Telegraph, telephone, and radio messages.....	1,217,991.77	1,541,207.97	323,216.20		3,417,665.91	3,945,372.64	527,706.73	
Leased wires or talking circuits.....	26,936.36	92,441.40	65,405.04		9,835,635.19	10,823,624.62	987,989.43	
Insurance (life, marine, inland, fire, and casualty).....	1,299,614.58	1,378,423.08	78,808.50		351,503.01	441,036.16	89,533.15	
Excise taxes (revenue act of 1917).....	309,932.37			309,932.37	6,805,612.91	8,189,830.50	1,324,217.59	
Manufacturers' excise tax:.....					2,236,350.19			2,236,350.19
Automobiles, motor cycles, accessories, etc.....	11,263,535.79	12,495,124.90	1,221,589.11		54,788,778.58	63,965,012.61	9,176,234.03	
Other excise taxes, section 900 (see supplement).....	6,032,877.00	5,803,994.49		278,882.51	26,016,838.22	27,295,620.77	1,278,782.55	
Motion-picture films leased.....	362,506.66	10,808.59	21,035.86		1,420,687.07	2,396,032.12	975,316.05	
Employment of child labor.....			10,808.59			11,468.84	11,468.84	

Consumers' or dealers' excise tax:	64,429.34	48,737.59	15,691.75	418,603.47	315,656.46	102,947.01
Sculpture, paintings, statuary, etc.						
Carpets and rugs, picture frames, trunks, wearing apparel, etc.	1,340,582.32	2,138,908.15		5,120,841.33	9,659,521.24	
Jewelry, watches, clocks, opera glasses, etc.	1,583,486.11	1,661,234.13		8,280,223.97	9,133,760.35	
Perfumes, cosmetics, and medicinal articles	512,766.44	504,234.08		2,516,277.41	2,473,196.37	
Beverages made wholly or in part from cereals, etc.			8,062.36			45,078.04
Soft drinks mixed at soda fountains, and ice cream.	1,716,298.99	2,900,325.44		14,067,827.19	21,455,036.51	
Ordium, coca leaves, including special taxes, etc.	1,895,584.67	2,058,022.03		16,211,181.70	15,019,008.82	
Corporations, on value of capital stock.	80,473.07	32,443.94		51,874,985.50	53,607.13	1,192,174.88
Brokers, stock, etc.	17,083,711.03	6,792,434.29		51,111,224.28	59,318,372.98	240,328.37
Theaters, museums, circuses, etc.	69,676.74	44,680.07		1,440,733.78	1,440,670.98	
Rolling alleys, billiard and pool tables.	39,364.76	39,368.37		1,382,539.11	1,254,403.20	82.80
Shooting galleries and riding academies.	80,294.73	67,598.54		1,865,872.31	1,572,096.89	127,935.91
Passing automobiles for hire.	1,584.22	50,892.58		938.91	1,260,731.87	292,873.42
Yachts, pleasure boats, power boats, etc.	13,027.37	16,331.42		1,439,743.32	1,484,650.52	2,303.65
Admission to theaters, concerts, cabarets, etc.	5,877,251.58	7,982,248.81		27,232,778.02	36,571,524.02	206,964.48
Dues of clubs (athletic, social, and sporting).	388,340.99	508,270.81		1,887,916.70	2,256,864.45	100,148.51
Total.....	77,203,994.68	78,538,947.76	1,334,853.08	386,180,178.11	428,704,529.45	
MISCELLANEOUS.						
Adulterated and process or renovated butter and mixed flour.						
Oleomargarine, colored.	10,308.06	4,773.80	5,534.26	47,208.12	33,326.29	13,881.83
Oleomargarine, uncolored.	74,698.15	114,865.60	40,167.45	275,645.03	467,106.35	
Oleomargarine manufacturers and dealers (special taxes).	89,422.52	77,887.80	12,034.63	364,171.88	344,355.00	19,816.88
Sales of Government property, receipts from miscellaneous sources, etc.	74,576.85	57,455.23		884,940.53	960,821.83	
Total.....	48,327.00	17,382.26	17,121.62	244,138.35	53,204.07	190,934.28
Aggregate classified receipts.....						
	287,332.58	271,864.78	25,467.80	1,816,112.91	1,858,813.54	
	163,975,711.34	187,773,941.02	23,798,229.68	1,717,668,851.03	1,579,824,436.18	137,844,414.85

Senator McCUMBER. Doctor, can you take up item 7, Victory taxes, in the bill, and in the order here give us any information you have on the subject, or make any suggestions that you think proper?

Mr. ADAMS. Senator, what I shall say is not the result of any very serious study, but there are certain observations which may be made with respect to these various suggestions. The proposal that there should be an increase in the income surtaxes, I think, obviously raises a conflict, in view of the fact that these surtaxes in the upper brackets are now too high for successful collection. Take the proposal in the House bill, for instance, that there should be an increase of 3 per cent in the surtaxes on incomes in excess of \$26,000. Those surtaxes now, as you will recall, go to 65 per cent. That would mean 68 per cent surtax, which, with the normal tax, would mean 76 per cent tax. You are familiar with the statistics showing that the taxable income reported by the very wealthy taxpayers is falling off. The Secretary has probably called your attention to the fact that, with respect to taxpayers having incomes in excess of \$300,000 a year, the income reported fell off from \$922,000,000 for 1916 to \$392,000,000 for 1918, a period of two years, or a falling off of 66 per cent in the income reported by the very rich.

There are many ways by which that can be brought about—many ways which could not be prevented by law. There is the investment in tax-free securities, and a great deal of that has taken place. The rich man can comb over his securities, selling those which have fallen in value, thus taking his losses, and holding all those which have increased in value. Very wealthy men find it possible to incorporate and escape surtaxes altogether on undistributed income. There are many ways of reducing income, and they are showing themselves in the falling off of the taxable income reported by the very rich.

Senator LA FOLLETTE. Have you any way of estimating, Doctor, what percentage of this reduction in income is due to investment in nontaxable securities?

Mr. ADAMS. Senator, I have not. The real experts differ a great deal about that. I meet constantly tax experts, bondmen, and so on, who are in close, intimate, personal contact with very wealthy men, and I hear two reports: From one set I hear all about the tax-free bonds. They tell me about this man to-day and another man next day who are taking millions and transferring them from taxable securities to nontaxable securities. Then I run into another expert and he tells me that the very wealthy men he meets are not changing over into municipal so much, but are using these other devices.

Senator McCUMBER. Does not the questionnaire in the report of taxes require a list or sum total of nontaxable securities held by the taxpayer?

Mr. ADAMS. It does, Senator.

Senator McCUMBER. And can you not through that method obtain accurate information about how much they hold in one year, and then see how much that has increased in the next fiscal year, and in that way determine about what part has gone into that character of investment?

Mr. ADAMS. Question on the return was not answered in every case. Many taxpayers affected were advised by counsel that the

question was *ultra vires*, so that the answers are incomplete. However, exempt interest on Federal, State, municipal, and farm-loan bonds aggregating \$214,992,558 was reported. This represents, capitalized, about \$5,000,000,000 par value of tax free securities. These figures are for the taxable year 1918. We have not yet tabulated the returns for 1919, so a comparison is not yet possible.

Senator SMOOT. We know there are about 18 billions of tax-free bonds of all kinds in the United States. They are held by somebody, and they are tax-free, and I am quite sure that many, many of the wealthiest men in the United States are buying tax-free bonds.

Mr. ADAMS. I hear that, as I said.

Senator SUTHERLAND. Do the prices of bonds of that character indicate that there is any unusual activity in the buying of them?

Mr. ADAMS. The best of them are selling on a better basis than Liberties.

Senator SUTHERLAND. At a higher rate of interest?

Mr. ADAMS. At a lower rate of interest.

Senator SMOOT. Take 3½ Liberty bonds, which were held above par for a long time, and they were being purchased then and gathered in by the wealthy people of the United States. That applies also to the bonds of the Federal farm loan bank and the joint-stock land banks, which were purchased in large blocks in New York. I have no doubt but what they have been purchased and are being held to-day by very wealthy men, to avoid taxation.

Mr. ADAMS. Mr. Chairman, I think if one uses their imagination a little here it is hardly necessary to get statistics. I have quoted some which, so far as they go, are almost conclusive. Do you need statistics when there are perfectly easy ways to avoid a 70 per cent rate—and they are lawful ways? Can you expect any rich man to pay over 70 per cent of his income in taxes? It seems to me one of those questions which we rather dignify too much, if we look for statistics. The meaning is plain on its face. I do not mean to suggest that we should not get all the statistics we can, but I do not see how we can expect to collect a 70 per cent tax if there are obvious ways out.

Senator LA FOLLETTE. It might raise the question as to how many holes there are to be plugged and whether they could all be plugged in order to prevent taxes escaping.

Mr. ADAMS. You will still have this tax-free outlet, although Secretary Houston suggests in his last annual report several ways of partially plugging that hole.

Senator LA FOLLETTE. That is one reason I cared to know how much was escaping that way.

Mr. ADAMS. Senator, we will be able to give you the amount of municipals and other tax-free securities held in the year 1918, I hope, within a few days. We can not give you the corresponding figure for 1919.

Senator SMOOT. As shown by the returns?

Mr. ADAMS. As shown by the returns. I have been very much interested in your question as to the methods of reducing taxable income. In addition to the devices to which attention has already been called, there is another device, of putting their money into enterprises which will yield their returns 5 or 6 or 8 or 10 years in the future, and from which they would get no immediate income.

The device of giving money away has not been used so much by the very rich, according to my investigations, as by the moderately rich. There is an amendment to correct that in House bill 14198, which is before this committee as passed by the House.

My feeling about it is, personally—and I do not know how the Secretary feels on this point—I should have surtax rates as high as could be successfully collected, but I am perfectly certain that the present surtaxes can not be successfully collected.

Senator SMOOT. What is the maximum rate, in your opinion, that men of means will not undertake to avoid?

Mr. ADAMS. I do not believe, Senator, an income tax can be successfully enforced in the long run in time of peace, with a large volume of tax-free bonds outstanding, which imposes a rate much above 30 per cent, if any.

Senator SMOOT. Thirty-three and a third per cent tax-free bonds make money worth about  $7\frac{3}{4}$  per cent, and I do not believe myself it is possible to have a larger rate of interest than  $33\frac{1}{3}$  per cent and compete against tax-free bonds.

Senator McCUMBER. Thirty-three and a third per cent on what income?

Senator SMOOT. The highest income—the total.

Mr. ADAMS. Normal and surtax.

Senator SMOOT. Normal and surtax.

Mr. ADAMS. We considered a 5 or 6 per cent rate as something rather daring when we first introduced it. In the Federal law we started at 1 per cent. England and Germany levied at that time only 5 per cent taxes. I remember that in the introduction of the income tax in Wisconsin a 6 per cent rate was regarded as highly disturbing, and great evil was expected from it. I think that was mistaken, but we have now gone to the other extreme. I do not see how we can successfully carry rates much beyond, if any, 30 per cent permanently.

Senator McLEAN. Especially as a good many of the States are driven to income taxes to pay their bills.

Mr. ADAMS. A majority of the wealthier States of the Union are coming to an income tax.

Senator GERRY. Dr. Adams, have you a sufficient number of income-tax collectors throughout the country to collect the tax properly, or is there a limit to income-tax collectors which necessitates the slow collection of taxes in a few big centers or more densely populated States?

Mr. ADAMS. Senator, I do not know that I get your question. Do you have reference to giving aid to taxpayers by agents?

Senator GERRY. I mean in regard to the adequate number of income-tax collectors in the service of the Treasury Department. I noticed some time ago there was a protest made by the Secretary of the Treasury, when he came before this committee, to the effect that he did not have a sufficient number of income-tax collectors to properly collect the income tax throughout the country, and the result of that was that he had to go where he could get the most money. I do not know whether the Appropriations Committee removed that difficulty or not. But at that time Congress was not allowing a sufficient appropriation to provide ample funds to properly collect the income tax, and in remote sections of the country, notably in

the Northwest, taxation was being escaped on that account. Do you know anything about that?

Mr. ADAMS. Why, yes, Senator; the war legislation increased the number of taxpayers from perhaps 400,000 or 500,000 to approximately 5,000,000—

Senator GERRY (interposing). I understand that—

Mr. ADAMS. If I may go on—it is an exceedingly difficult matter to increase rapidly the administrative force capable of administering these taxes. It can not be done quickly. It is even more difficult when, as at present, it is almost impossible to hold the most expert men. I, personally, consider the gravest problem that confronts the Treasury Department at the present time to be the inability to hold the best men in the department. The turnover among the most expert men in the Bureau of Internal Revenue has been at times over 100 per cent a year. It is very difficult to keep experts at the present time.

Now, then, under those circumstances, it has proved impossible properly to decentralize the administrative force. There ought to be far more assistance given to the taxpayers; there ought to be many more expert agents, not only for the purpose of auditing the returns properly and checking them up, but helping the taxpayer to make up his return. You will never have a first-class system of income taxation until that is done.

Senator CURTIS. You want to simplify the returns, too, do you not?

Mr. ADAMS. That needs to be done. But that, again—

Senator GERRY (interposing). That is really my point—whether there is a sufficient number of agents who are seeing that the income taxes are paid throughout the whole country, who are collecting the tax. I know that two or three years ago they were not being properly collected, and I understand that the Appropriations Committee did increase the appropriation for this purpose, but I do not know whether they increased it sufficiently and whether at the present time there are a sufficient number of collectors; and I wondered if you knew that, because, naturally, that has a large effect on the revenue?

Mr. ADAMS. Senator, I can not answer that. I know that we need every assistance in getting and holding the most expert men.

Senator GERRY. In other words, what I had in mind was that very likely it might be economy to increase the appropriation for income-tax collectors, with the idea of getting an increased revenue from that increased appropriation.

Senator SMOOR. I was going to say that the appropriation gave them \$21,000,000—what they asked for. And it is not altogether a question of what we can do by way of increasing salaries for these men, because of this fact: That we get men in the department, we train them there, and they immediately go out and secure employment from wholesale houses and large retail establishments and large manufacturing concerns at a salary that we can not afford to pay in the Government of the United States, and they are hired for the very purpose of trying to evade the law just as much as it is possible to do, and that is where most of these men go, and you can not keep them.



Senator GERRY. The matter I referred to was brought out by Mr. McAdoo when he was Secretary of the Treasury, and at that time Congress had not given a sufficient appropriation for enough income-tax collectors to properly do the work. I understand that subsequently Congress did increase that appropriation.

Senator SMOOT. From \$10,500,000 to \$21,000,000.

Senator GERRY. And the part I wanted to bring out was whether they had increased that appropriation sufficiently.

Senator LA FOLLETTE. I want to ask Dr. Adams if it would not be good economy for the Government to pay salaries sufficient to retain these experts instead of having them taken away for the purpose of reducing the revenues of the Government—that is, pointing out methods to taxpayers by which they can escape taxation?

Mr. ADAMS. Senator, I agree thoroughly with what you say. The greatest reform that could be worked would be to give the department elasticity with respect to the salaries of some men. I am certain that the resignation of one man about a year or a year and a half ago has cost or will cost the Government of the United States at least \$50,000,000. There happened to be one man in this country, who came down here during the war, who combined expert knowledge in a particularly difficult field with the administrative capacity of teaching and training and directing a big department. He had received something over \$6,000 a year in his previous employment. He came here during the war at \$5,000 a year. When the war ceased he felt a little restive, because his expenses were very much heavier in Washington. He had owned his own home where formerly employed, and so on, and he suggested that he ought to be given \$7,500 a year; and he would have stayed if he had been given that. There was not a plain statutory warrant for it, and the proposed salary was above that paid to other men of similar rank, and he was permitted to leave. He obtained, I understand, \$20,000 a year outside. I think it has cost the Government an indefinite number of millions of dollars. I say that seriously, and I am trying not to exaggerate.

Answering Senator Gerry's question, we were, at the time Secretary McAdoo spoke, actually crippled by an insufficient number of agents. I think that has been largely remedied, however.

We need more elasticity with respect to salaries and other means of holding expert men. I think, combined with freedom, under proper regulation, to pay the necessary salaries, there ought to go some prohibition on persons coming into the Government service, passing a period of training in the Government service, and then leaving for private work in the field of Federal taxation.

Secretary HOUSTON. Mr. Chairman, may I take a moment to read into the record a paragraph of my annual report in which I touched on this very question?

Senator McCUMBER. We will be very glad to have you do it, Mr. Secretary.

Secretary HOUSTON. I read it because I am sure I could not state it any better and perhaps would take more time if I were to try to restate it [reading]:

The attention of Congress is invited to the pressing need of the readjustment of the salaries of Government officers and employees. The great business of the Federal Government has grown in magnitude through increased and increasing activities, particularly as a result of the war. No one will dispute the fact that

the Government should pay a living wage to every employee and that the amount should be in due relation to the value of the services rendered. If the business of the departments is to proceed along efficient and economical lines the salaries in the public service and the opportunities for promotion must be sufficient to offer a career to men and women of ability. In many of the supervisory grades particularly, the compensation paid is unattractive and far below the standards of private enterprise. It is of the highest importance that the Government secure and retain in certain positions of great responsibility individuals of the highest integrity, of wide experience and of exceptional ability. The public business in higher degree even than private enterprise needs the service of persons of talent. If it is not available the people's interests will suffer.

The Government need not pay salaries as high as those given in many industrial establishments, but it should pay enough to retain able and experienced servants. It should pay enough to enable them to live decently, to save something, and to work without undue apprehension as to the future of their families. Democracy for us is the best form of government, but it is a difficult one. Its performance will depend in no small measure on the quality of its administrators. If these are mediocre, our democracy, it is true, is not likely to fail, but its performances will probably be below the high standard to which it aspires and which it should set.

May I take a moment more? I have been in the service of the Government for nearly eight years. I shall soon cease to be in the service. While I have been sympathetic with the study, survey, and recasting of the compensation of the Government employees generally, I would say, in the light of my experience, that the essential thing, so far as efficient administration of this Government is concerned, is that there be in each department of the Government in a number of very responsible positions individuals of great ability and tested experience whom you can retain, or if they leave whose places you can fill with others of equal ability. But you can not hope to get the results you wish, no matter how much you may pay clerks and the rank and file, unless the Government can get and keep in a number of the most important executive positions—I am not speaking of political positions—men of the requisite training, ability, judgment, and experience. You can not otherwise accomplish what you wish in the way of economy or anything else. I do not know how to secure the necessary action. George Washington called attention to the need of it about 125 years ago toward the close of his administration. We have not yet succeeded in meeting his views. I regard it as of first importance that we do so.

We have gentlemen in the Treasury who have immense responsibilities. Private business would pay men who could discharge their duties \$50,000, \$75,000, or \$100,000 a year. We pay them \$5,000. I am not suggesting that we pay such salaries as private industries pay. I think we could get and secure men of the kind I have in mind, of the standard I suggest, by giving them enough to live on with reasonable decency and out of which they may save something. This would go a long ways toward solving the problem.

You have officers in the Treasury Department to-day whose responsibilities exceed or equal those of the large banking institutions in America.

Senator SUTHERLAND. Mr. Secretary, how much do we lack in being current in the examination of the income tax and tax returns?

Secretary HOUSTON. Dr. Adams will answer that.

Mr. ADAMS. We are over two years behind on the larger returns and more difficult returns for 1917. The smaller returns for 1917 and

approximately 400,000 of the returns for 1918 have been cleaned up or audited. With the invested capital once established for 1917 the audit of the later years will be very much easier and more rapid.

Senator SUTHERLAND. Do we not stand a chance of losing quite large sums of revenue in the checking up of these later and then finding they are not able to pay? Some companies have made money, but which would possibly be thrown into bankruptcy if called upon to pay large additions. It seems to me there is danger of losing large sums of revenue by reason of that.

Senator SMOOT. All this can be avoided by passing laws that any ordinary business man can understand, so that anybody can make a return and know it is true. That is what we want to do.

Senator SUTHERLAND. That would not affect the last two or three years.

Senator SMOOT. It can very easily be done, in my opinion.

Senator McCUMBER. Doctor, we have run somewhat afield, although not unprofitably, from the consideration of the proposed taxes in this bill. We have now 10 minutes before adjournment of the committee, and we would like to hear from you on that subject.

Mr. ADAMS. I had been speaking about the proposal to raise about \$108,000,000 by increasing the surtaxes, and called your attention to the fact that it conflicted with the necessity of bringing down some of the higher surtaxes. Proposal No. 2 places a tax of one-fifth of 1 per cent on the sale of stocks and bonds. This raises a question of policy and legislative judgment. The present tax is one-fiftieth of 1 per cent. Here you have, of course, to be very careful that the tax does not so restrict the sales that you pass what Senator Penrose calls "the collection point," frequently called the point of maximum yield. I am rather inclined to think that a tax of one-fifth of 1 per cent on the sale of stocks and bonds would so diminish transactions that you would cut down the yield that could otherwise be obtained, and that a smaller tax would yield larger results.

The third proposal, to place a tax of one-half of 1 per cent on the sale of real estate, seems to me, under existing housing conditions, and so on, to be a proposal of very questionable policy. You are better able to discuss the policy of it than I could be.

Proposal No. 4 is for an increase of approximately 15 per cent in the existing tax on cigars and tobacco and of approximately 25 per cent on the tax on cigarettes. In view of the statistics read this morning it now becomes questionable. I should have regarded it as perhaps the soundest of the proposals in the past, but the change in statistics gives me some concern.

The tax on stock dividends raises another question of general legislative policy. I personally feel, after the decision of the Supreme Court, that it would be wiser to exempt stock dividends when declared, and tax the gain on the sale of the stock when it is sold, rather than attempt at this late date, by retroactive legislation, to tax stock dividends when paid.

Senator McCUMBER. Tax the gain as against the holder, as income, by the person who received the dividends; is that what you mean?

Mr. ADAMS. I mean that when an individual gets a stock dividend, it represents in large part merely an additional paper showing of

what he theretofore owned. I suppose this method of taxing stock dividends by an excise tax is constitutional, although there is some doubt about it. But, as a matter of policy, it seems better, in the case of stock dividends, simply to wait until the recipient realized some profit, something in the nature of cash. If I get a stock dividend, I doubt if I have that increase in my monetary resources which makes it desirable to impose a tax.

Senator McCUMBER. Do not those stock dividends generally go to people who are not compelled to sell stock and who would undoubtedly hold them and would not sell them for a great many years, and certainly not sell them while they would be subject to tax?

Senator SMOOT. If you had this tax imposed on stock dividends retroactive, as it is provided here, it would ruin a good many people.

Mr. ADAMS. That is a large question of policy, Mr. Chairman, upon which you need no advice from me. I should prefer to avoid hardship and await the sale of those certificates until the stockholder knew what he was going to get from them and had the cash with which to pay, particularly when the Supreme Court may regard such a retroactive excise tax as an unwarranted method of avoiding the substance of its recent decision.

Senator McCUMBER. Take a case of this kind, Doctor: Suppose here are two corporations. Their earnings are \$100,000 each for 1920. One corporation declares a dividend and distributes that \$100,000 in cash, and the recipients of that \$100,000 in cash, by reason of their added income, pay their taxes on that. The other corporation distributes an additional sum, which represents nothing but the earnings, and the recipients of that stock pay nothing. Ought we not find some method by which we could equalize that and compel the payment of a tax out of the earnings of that corporation by those individuals who received it?

Mr. ADAMS. The finding of the Supreme Court is that on the receipt of stock dividends the stockholder has substantially nothing more than he had before.

Senator McCUMBER. In other words, he has not got the property—it has not been paid to him—and that is their holding; he did not get any cash out of it. The stock dividend is not income, it is not in the shape of income, as he got it. I am speaking now of the earnings. That dividend represented wholly the earnings in a given year. It does seem to me that there is some legitimate way of taxing that income in the hands of that individual who received it that would not be unconstitutional?

Mr. ADAMS. The Secretary suggests that if left in the business that amount of money would show itself in the larger earnings of subsequent years. But I call further attention to this, that the Secretary has also recommended, as one of the available taxes to take the place of the excess-profits tax, a tax upon the undistributed profits of corporations.

Senator McCUMBER. For the future?

Mr. ADAMS. Would that meet the point in your mind?

Senator McCUMBER. That might meet the point in my mind in the future. But I want, if possible, to get the income that the Government is distinctly entitled to from the earnings of those corporations which distributed those earnings in the year 1920 in the form of stock dividends.

Mr. ADAMS. I say that is a question of larger policy, which you gentlemen can settle better than I.

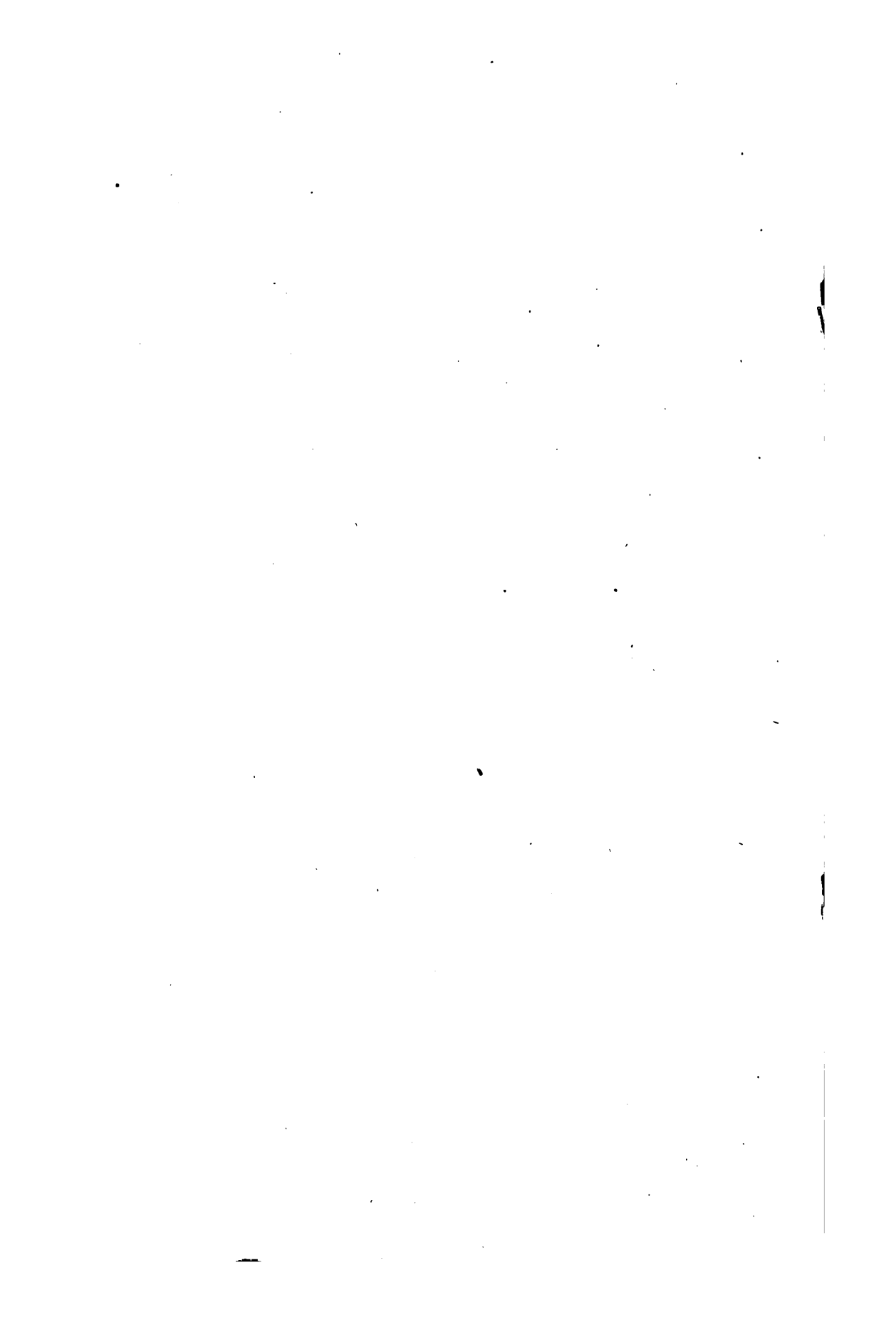
Senator McCUMBER. I did not know but what you had some suggestions. There were suggestions made by Mr. McAdoo on the subject.

Mr. ADAMS. The only suggestion is, so far as this problem is likely to arise in the future, that the object you have in mind will be more completely and effectually accomplished by the adoption of an undistributed-profits tax than it would by an excise tax on stock dividends.

Senator McCUMBER. I think you are right; and if I could make it retroactive I would prefer to do it.

The committee will now stand adjourned until further notice.  
(Thereupon, at 12.05 o'clock p. m., the committee adjourned.)





# SOLDIERS' ADJUSTED COMPENSATION

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## HEARINGS

BEFORE THE

## COMMITTEE ON FINANCE UNITED STATES SENATE

SIXTY-SIXTH CONGRESS

THIRD SESSION

ON

## H. R. 14157

A BILL TO PROVIDE ADJUSTED COMPENSATION FOR VETERANS  
OF THE WORLD WAR; TO PROVIDE REVENUE THEREFOR;  
AND FOR OTHER PURPOSES

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THURSDAY, JANUARY 13. 1921

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## PART 6



WASHINGTON  
GOVERNMENT PRINTING OFFICE  
1921



# COMMITTEE ON FINANCE.

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W. B. STEWART, Assistant Clerk.

## **OLDIERS' ADJUSTED COMPENSATION.**

**THURSDAY, JANUARY 13, 1921.**

**UNITED STATES SENATE,  
COMMITTEE ON FINANCE,  
Washington, D. C.**

The committee met pursuant to call of the chairman in room 310, State Office Building, at 10.30 o'clock a. m., Senator Porter J. McCumber presiding.

Present: Senators McCumber, Smoot, Curtis, McLean, Calder, Simmons, Thomas, Jones, Gerry, and Nugent.

The CHAIRMAN. We were to take up this morning, after closing testimony on the emergency tariff bill, what is known as the bonus bill. I think those who wish to be heard this morning are gentlemen who desire a hearing upon the matter of the taxing feature connection with exchanges. I will call Mr. C. H. Canby, president of the Board of Trade of Chicago. His is the first name before me.

### **STATEMENT OF C. H. CANBY, REPRESENTING THE BOARD OF TRADE, CHICAGO, ILL.**

Mr. CANBY. I am not the president of the Board of Trade of Chicago, Mr. Chairman; I am a former president. I represent not only the board of trade, Senators, of the city of Chicago but also the organized grain exchanges of Kansas City, St. Louis, Toledo, and Minneapolis, as well as the Grain Dealers' National Association, on this matter.

In the present war tariff there is a tax of 2 cents per \$100 on all sales for the future delivery of grain and products. In the operation of this tax we know from our records and experience that it has been a burdensome tax by reason of the fact that it is a tax on comparatively small profits, the tax being levied on the gross value of the contract, without any regard to the question of whether there is or not a profit or a loss. The resultant effect is that the tax operates as an additional burden in the event of a loss and is deductible from any profit.

The operation of the market for future delivery, upon which at the present time a very large percentage of our crops of wheat and corn and oats are handled from the country station through the terminal markets, is on a basis of comparatively narrow margins. It is our contention at this time that, owing to the increased collateral values given to the product, it has brought the amount received by the producer closer to the price paid by the consumer than would be possible under a system which was less economic in its effect.

The increase in this tax in the so-called bonus bill is about 900 per cent, or an addition of ten times the present tax, which changes it from 2 cents per \$100 to 2 cents on each \$10.

You are probably aware that there is no tax of any kind whatever and has not been even during the war period in Canada on sales of grain for future delivery. Practically all the export trade of the country, this country as well as Canada, enters into the future-delivery market in one way or another. Consequently, there is to a certain extent in the operation of an export trade which might be on a margin of perhaps 1 cent a bushel profit a differential at this time: that is, it would be if this became operative—a differential in favor of Canada and against the United States if the price were exactly even and both competitors competing from the same standpoint of advantage.

This tax amounts to-day on oats, barley, wheat, and corn to an average of nearly three-eighths of a cent per bushel, which would be, in our opinion, not only unworkable from the standpoint of revenue—that is, it would not bring in increased revenue over the rate that is now contained in the tax law by reason of the fact that the present tax is workable and does bring in a very fair revenue, but the multiplication of that tax by ten to the figure stated in this bill would, in our judgment, so reduce the volume of transactions that the revenue obtained would not be probably as large as the revenue you are now securing from a smaller tax.

The question of increase of revenue by the multiplication of price is, I think, quite apparent to your mind.

The National Grain Dealers' Association in their circular letter to their members—they have about fifteen or sixteen thousand members who are what we term country shippers and country dealers—said briefly:

Section 703 of this bill—

**Referring to the bonus bill—**

places a tax of 2 cents on each \$10 in value on all sales of grain for future delivery. The transactions for future delivery are now paying a liberal tax. The enormous increase proposed by section 703 would work more than an injury to the producer, the country dealer, and the terminal market man. It would in fact place against all transactions such an exorbitant tax as to practically defeat the very purpose of the bill.

Our contention, consequently, is based on two grounds: First, that the tax is not workable—that it is excessive, and would be prohibitive; and, second, that it would operate to the detriment and the confusion and the disadvantage of the trade.

If there is any question in regard to the general matter that the Senators would like to ask, I would be very glad to answer it.

(No response.)

The CHAIRMAN. There does not seem to be any questions, Mr. Canby.

(Witness excused.)

**STATEMENT OF MR. FREDERICK C. ALDRICH, PRESIDENT  
CHICAGO STOCK EXCHANGE, CHICAGO, ILL.**

Mr. ALDRICH. Mr. Chairman and gentlemen of the committee, I have come before you to-day as a representative of the Chicago Stock Exchange in regard to the tax feature of section 702 of the House of Representatives bill known as the "World War veterans' adjustment compensation act."

In framing this bill there has been prescribed a very radical tax which, if enacted into law, will not only curtail stock exchange transactions, but would, I believe, to a very large extent eliminate them and disrupt the business of the country.

At the present time the Federal tax on all stock exchange transactions is practically 2 cents a share on all sales, and while I have not the figures of the revenue produced from these returns to the Government annually, I know they are of very important magnitude, and instead of helping to raise the estimated amount between one and two billion dollars to meet the requirements of this bill, I think I am safe in saying that the curtailment of business would cause a reduction of the present Federal taxes much more than would be offset by the amount derived from this bill.

Furthermore, the drastic reduction of business in stocks and bonds and investments would consequently result in a loss of occupation for thousands of employees and brokers all over the country, thereby adding that many more to our army of unemployed.

It is only a few years ago that Germany experienced by restrictive financial legislation what would follow in this country by the passage of this bill as it now stands, and at which time it resulted in driving a large portion of Germany's financial business to the London market. You can readily see that without a market for securities what our banks and trust companies would do with their billions of dollars now involved in collateral lines all the way from Maine to California. The vast multitude of men and women in this country are to-day very much concerned over shrinkage in the price of their Liberty bonds and Victory notes which are owned by them. It does not seem reasonable to enact legislation that will impose a further decline in these values, which would certainly be the result should they be compelled to sell within the next two years, according to this bill.

The members of the Chicago Stock Exchange are not taking a stand either for or against the soldiers' bonus bill, but they are opposed to the heavy tax burden prescribed by this bill. The members of the Chicago clearing-house banks are very much alarmed, and I think they will have a representative here. But I have talked with them about it, and the drastic conditions are such that they fear that the result might be one of the gravest disasters in a financial way that the world has ever seen.

I thank you, gentlemen.

(Witness excused.)

The CHAIRMAN. Our next witness will be Mr. Samuel F. Streit, of the New York Stock Exchange.

**STATEMENT OF SAMUEL F. STREIT, REPRESENTING THE NEW YORK STOCK EXCHANGE, NEW YORK, N. Y.**

Mr. STREIT. Mr. Chairman and gentlemen, I want to state that our eminent counsel has prepared a brief covering the argument of the stock exchange.

I am speaking now entirely for the New York Stock Exchange. To my mind, this brief is so complete that you will probably find that anything that I can say will have been very much better said in that brief than by me. But I would like to call attention to a few

of the salient features of our argument that might be of interest to you.

We are opposed to this bill primarily because it will bring about a serious restriction of the free market for securities.

When I say that I mean in every way. The gentleman from the Chicago Stock Exchange has touched on phases of that matter, but I go further, and I would state to you that the lack of a free market will mean a great deal to industry and commerce and banking and manufacturing in this country.

Of course, in the first place, you have heard of the floor trader, and the man who is a member of the New York Stock Exchange and who primarily makes his business on the floor trading on small differences in the market corresponds with what is known in London as the jobber or the dealer, and he is always ready at all times to take securities at a small recession from the last sale or to supply them to the buyer at a small advance from the last sale, and he keeps the market continuous and normal.

The present tax is \$2 by the New York State law and \$2 by the Federal Government. When the Federal Government under war conditions imposed this additional \$2 per hundred shares on a transaction the New York Stock Exchange did not appear before any committee of Congress and protest. It considered it a war measure and accepted the situation. They were at that time under a tax by the State of New York.

At present a member of the stock exchange is not obliged to pay commissions to a broker, but has to pay a tax of \$4. Under the proposed bill he would pay \$22. A nonmember, on the average price of stocks between \$10 and \$125 a share, would have to pay at the present time a commission rate and tax amounting to \$34. Under the proposed bill it would be \$52.

Senator CALDER. Will you tell us how much the tax that you pay the State of New York amounts to?

Mr. STREIT. On a hundred shares?

Senator CALDER. I mean the total tax for a period of a year.

Mr. STREIT. We do not know exactly, from the exchange, but the State of New York last year collected from the total transfers of stocks about \$10,600,000.

Senator CALDER. It is fair to say that the Federal Government collected about the same?

Mr. STREIT. It is fair to say that the Federal Government collected much more, taking the country as a whole into consideration. The figures of the Federal Government, as I remember them, include the conveyances and capital issues tax. They amount to a very considerable sum.

Senator CALDER. Then you have not the figures indicating how much the New York Stock Exchange paid to the Federal Government on this tax?

Mr. STREIT. No; but we would consider approximately that if the State of New York collected \$10,600,000 from all of the transfers of all securities in the State of New York, probably the transactions of the New York Stock Exchange were between seven and eight million dollars.

At the present time under the tax a trader has to have an advance of one-eighth of 1 per cent in order to make any profit, and out of that profit he pays \$4 to the Federal and State Governments.

Under the proposed law he would have to pay \$22, so that he would have to make at least \$25 in order to make any profit.

The New York Stock Exchange asked a representative number of traders to give to it their views on what the proposed tax would mean and what had been the effect of the present tax.

Briefly, I would just state this digest of their views. They have been further elaborated in counsel's brief. It has only been in large national active market that the trader could afford to trade for small differences, making up in volume for the small fractional profits.

Under the tax the work of the floor trader—

I am speaking now of the present tax. I want to explain there that a trader now on one-eighth profit, apparently a one-eighth profit, only makes \$7.50, because he has to pay a charge of \$1 to his broker. So it is \$5—\$4 for the tax and a dollar for the commission. But if he loses he loses \$17.50.

Under the tax the work of the floor trader is not a profitable business. An average trader conservatively estimates that 40 per cent of profits are now consumed by transfer taxes and losses incurred. Out of four operations to be wrong only once wipes out any profit. Many traders would have been content to net what they now pay in stamp taxes annually.

That was in reply to a question, Has the number of men who are purely floor traders decreased in number as a result of the stamp tax, both Federal and State?

Question No. 2. Have the stamp taxes materially interfered with the volume and character of the operations of the floor traders?

We have 15 replies out of 15 questions asked. [Reading:]

The profit being so small the trade is not worth the risk. These are soul-grinding taxes, and while if every transaction yielded a profit part could be relinquished and there would still be something left, but many transactions are made that show losses, and to be taxed for making a loss the same as making a profit is hard to bear.

A great many traders formerly on the exchange have practically quit; and while I am holding no brief here for the floor trader, I am simply showing that he is part of the machinery of the stock exchange coincident with the speculator in offices who is the customer of a brokerage house, and who combined make this close and free market for securities throughout the United States.

We claim, and I think we can show figures to prove, that in furnishing a free market on the exchange we are enabling securities to be distributed to investors, the speculator acts as the intermediary, the temporary holder thereof, and we have an illustration which is probably the most concrete that could be given. I have before me some tables. The whole thing I would like to have in the stenographer's record if that may be permitted.

The CHAIRMAN. It may be entered.

Mr. STREIT. It shows the function of the New York Stock Exchange in acting as the intermediary for the company that owns securities while that company is being built up until those securities go into the hands of investors.

On December 31, 1909, the United States Steel Corporation had in the hands of investors, brokers' names, or individuals' names, presumably investors—occasionally some investors or some speculators

will have stock in their own names in the broker's hands, but the percentage is so small that for a matter of record I think I can take the figures that I give here as fairly accurate—66.41 in the name of brokers and 33.59 in the name of individuals.

This is common stock. At the same time the preferred stock, which, of course, from the beginning was practically an investment stock, was 17.57 per cent in brokers' names and 83.43 in individual names.

On December 31, 1920, there were in the names of brokers 25.17 per cent and in the names of individuals 74.83 per cent of the common stock, showing almost a complete reversal of figures, and in the preferred stock 7.53 per cent in brokers' names and 92.47 in individuals' names.

In the interim there was a period when the process was temporarily reversed and the figures there are again illuminating from the point of view of the stock exchange's activities, when I take the period of December 31, 1914, just after the stock exchange closed and after the period of long depression in prices from 1912 on until the exchange closed on July 31, 1914. There had been declining figures on steel, and the investor thought it was an attractive security, that while it was temporarily depressed by war conditions he could absorb it. So that where it was 66 per cent in brokers' hands in 1909, on December 31, 1914, it was 43 per cent, in round figures, and 56 per cent in individuals.

Following the opening of the stock exchange in 1915 we had a great era of speculative activity as well as prosperity throughout the country, and the price of steel common arose from \$38 a share, which was the minimum price set by the exchange, to over \$130, and the investor who had absorbed possibly through the medium of the stock exchange in the period of depression took advantage of his opportunity and cashed in; so that on December 31, 1916, you find that the brokers had in their names and carrying for speculative account 58 per cent of steel common and the individual, the investor, 41.96 per cent.

In the fall of 1916 we had a break in the market. The war came on in 1917, and prices became attractive again, and the investor began to buy steel common. This also shows with the preferred, and we have come down to the figures previously quoted as of December 31, 1920.

(The table referred to by the witness is in full, as follows:)

*United States Steel.*

Date of statement.	Common stock.		Preferred stock.	Date of statement.	Common stock.		Preferred stock.
	Brokers.	Individuals.			Brokers.	Individuals.	
	<i>Per cent.</i>	<i>Per cent.</i>	<i>Per cent.</i>		<i>Per cent.</i>	<i>Per cent.</i>	<i>Per cent.</i>
December 31—				December 31—			
1909.....	66.41	33.59	17.57-83.43	1915.....	49.80	50.20	
1910.....	58.32	41.68		1916.....	58.04	41.96	11.15-88.85
1911.....	55.26	44.74		1917.....	46.53	53.47	
1912.....	57.36	42.64		1918.....	40.71	59.29	
1913.....	49.34	50.66		1919.....	39.65	60.35	
1914.....	43.15	56.85	11.82-88.18	1920.....	25.17	74.83	7.53-92.47

<sup>1</sup> From Dec. 31, 1914, to Dec. 31, 1916.

*Distribution of United States Steel common and preferred stocks, 1919-20, showing drift of shares from speculators (brokers' names) to investors (individual names).*

Date of quarterly statement.	Common stock.		Preferred stock.	
	Brokers.	Indi-viduals.	Brokers.	Indi-viduals.
	<i>Per cent.</i>	<i>Per cent.</i>	<i>Per cent.</i>	<i>Per cent.</i>
Dec. 31, 1909	66.41	33.59	17.57	82.43
Mar. 31, 1910	63.94	36.08	16.79	83.21
June 30, 1910	61.54	38.46	15.62	84.38
Sept. 30, 1910	57.86	42.14	14.98	85.02
Dec. 31, 1910	58.32	41.68	14.59	85.41
Mar. 31, 1911	58.36	41.64	14.59	85.41
June 30, 1911	58.29	41.71	14.39	85.61
Sept. 30, 1911	55.41	44.59	14.13	85.87
Dec. 31, 1911	55.26	44.74	14.67	85.33
Mar. 31, 1912	51.54	48.46	14.39	85.61
June 30, 1912	56.27	43.73	13.90	86.10
Sept. 30, 1912	57.58	42.42	13.67	86.33
Dec. 31, 1912	57.36	42.64	13.49	86.51
Mar. 31, 1913	54.71	45.29	13.75	86.25
June 30, 1913	51.07	48.93	12.71	87.29
Sept. 30, 1913	50.80	49.20	12.41	87.59
Dec. 31, 1913	49.34	50.66	12.39	87.61
Mar. 31, 1914	49.86	50.14	12.64	87.36
June 30, 1914	48.90	51.10	12.49	87.51
Sept. 30, 1914	45.01	54.99	11.90	88.10
Dec. 31, 1914	43.15	56.85	11.82	88.18
Mar. 31, 1915	42.33	57.67	11.59	88.41
June 30, 1915	44.42	55.58	11.70	88.30
Sept. 30, 1915	46.94	53.06	11.69	88.31
Dec. 31, 1915	49.50	50.50	11.15	88.85
Mar. 31, 1916	53.87	46.13	11.02	88.98
June 30, 1916	52.75	47.25	10.73	89.27
Sept. 30, 1916	55.67	44.33	12.13	87.87
Dec. 31, 1916	58.04	41.96	12.74	87.26
Mar. 31, 1917	53.16	46.84	11.39	88.61
June 30, 1917	55.15	44.85	10.94	89.06
Sept. 30, 1917	52.66	47.34	10.16	89.84
Dec. 31, 1917	46.53	53.47	9.61	90.39
Mar. 31, 1918	44.51	55.49	9.37	90.63
June 30, 1918	43.78	56.22	9.17	90.83
Sept. 30, 1918	43.88	56.12	9.18	90.82
Dec. 31, 1918	40.71	59.29	9.11	90.89
Mar. 31, 1919	38.91	61.09	9.00	91.00
June 30, 1919	42.53	57.47	9.03	90.97
Sept. 30, 1919	41.52	58.48	8.78	91.22
Dec. 31, 1919	39.65	60.35	8.29	91.71
Mar. 31, 1920	33.46	66.54	7.88	92.12
June 30, 1920	32.09	67.91	7.68	92.32
Sept. 30, 1920	30.69	69.31	7.42	92.58
Dec. 31, 1920	25.17	74.83	7.53	92.47

Another illustration of the force or power of the speculator, to use a slang expression, "holding the bag" for the investor temporarily, is the fact that not long ago the American Telephone & Telegraph Corporation, whose securities have been very high from an investment point of view, put out fifty millions of bonds. They were put out at a time when conditions were not favorable from an investment standpoint, and the American investor only took eleven millions of them and left thirty-nine millions for the speculator to hold through syndicate or other operations until such time as the investor was able to take them off his hands.

Remember, gentlemen, that in this bill you are taxing bonds as well as stocks, and never before has any State, as far as we know, or the Federal Government imposed a tax upon bonds; and while that is another subject so far as detail is concerned, and I will not go into it now, I call your attention to that in connection with this issue of American Telephone & Telegraph Corporation bonds.



The effect of this proposed tax on the market is not entirely a matter of conjecture. I happen to have been for eight years chairman of the clearing house committee of the New York Stock Exchange, and that committee endeavors to place upon its lists to be settled through the clearing house operations all of the active stocks, and we have kept most accurate statistics for nearly 30 years, and it has been shown year in and year out that 90 per cent of the total volume of our transactions on the New York Stock Exchange are in those securities settled through the clearing house. If you can get accurate figures on 90 per cent of anything you come pretty near getting an accurate percentage of the whole.

We found from those figures, which have been very carefully kept, the following situation. I am willing to admit that a mere \$2 tax had comparatively little effect on the operation of the New York stock market, but there are figures that I am going to show you that when that was doubled and made \$4 it did have a restricting, breaking power.

From May 1, 1905, to May 1, 1910, there was a \$2 New York State tax imposed and paid all the time. During the period from 1915 to 1920 there was still a New York State tax, and there was a Federal tax from May 1, 1915, to September 9, 1916, and again from December 1, 1917, to May 1, 1920. We consider, therefore, that a comparison of those two periods, making a certain exception which I will show you afterwards, of five years each should show one way or the other whether or not that \$4 tax was a break or restriction on the market.

The facts are these: In the earlier 5-year period—and I would interpolate there by saying that we have taken five years because in any one year there may be varying causes influencing security markets, world-wide causes—in the first five years there were two periods of active speculation and the great panic of 1907, followed by the depression of 1908. In the period from 1915 to 1920 we had the active markets, starting in April, 1915, ending in December, 1916, and depression, beginning with the war, and then another active time afterwards, followed by the late unpleasantness in the last six months.

So that there is a very considerable reason to feel a similarity between the two periods. In the first period the par value of the stocks admitted to the clearing house was \$6,443,481,100. In the latter period the par value of the stocks having a par value admitted to the clearing house was \$8,413,105,520, and, in addition, there were admitted stocks without nominally a par value to the amount of 150,586,464 shares.

Experience has shown that an average price of 20 is fair to take on the nominal or no par value stocks. Therefore the average value of the stocks cleared during the latter period may be taken to be \$11,424,823,870, showing an increase of 77 per cent in the value or volume of the securities.

The average number of stocks included in this amount increased in that period 51 per cent, but the average volume of transactions in the first 5-year period was 273,000,000 shares, and the average volume settled through the clearing house during the second period was exactly the same. In other words, with this tremendous increase

of 77 per cent in the value of the securities and 51 per cent in the number of securities, the actual transactions were the same.

Senator McLEAN. Do you think that the surtax on large incomes has had any effect on the volume of transactions?

Mr. STREIT. I do not know. I have no reason for knowing.

Senator McLEAN. Whether there would be a disposition on the part of the owners who have made profits to hold rather than to sell, even if the owner had speculative tendencies at times?

Mr. STREIT. Put that way, Senator, I should say that one thing would balance the other; that in the late decline of the market from July of this year to the 31st of December they would be sold, because the prices were down, to take advantage of the losses they would have made, so that looking at that question for the first time in a new light, I should think that one thing about balances the other.

The CHAIRMAN. That actually is the case, it is not, that the selling has been very considerably more during the fall of the year for the very purpose of setting off losses against the gains?

Mr. STREIT. I do not know definitely. I know that people have stated that prices were down now so they could afford to sell where they could not afford to sell when prices were up.

Senator McLEAN. Of course, there is not very much money made, after all, if one has to sell only to take losses. I would like to know whether the inclination to hold profits rather than to sell and pay the surtax has not had a considerable effect on the total of the transactions, especially among men who, while we would not call them speculators, are thrifty investors. I do not know whether you have made any estimate of that or whether it has any bearing upon this question.

Mr. STREIT. I have made no estimate. Possibly it has some bearing, Senator, but our opinion has been that, considering the fact that in both cases there were five-year periods of very similar market conditions and very large speculative activities, both buying and selling, it was a reasonable presumption that something had acted as a brake.

Senator McLEAN. Just what is the tax on the dollar? I do not know but you have already put it into the record, but the accumulative taxes amount to how much?

Mr. STREIT. You mean the income tax?

Senator McLEAN. No; the Federal tax and the State tax on your transactions.

Mr. STREIT. It is \$4 on 100 shares at par; that is, on \$10,000 it would be \$4.

Senator McLEAN. And the broker ordinarily charges \$8?

Mr. STREIT. The broker on 100 shares of stock at par charges \$15. The new tax would be \$22.

Senator McLEAN. This proposes an additional 2-mill tax?

Mr. STREIT. Ten times.

Senator McLEAN. It is 2 cents on \$10. It would be a 2-mill tax?

Mr. STREIT. Yes; but the present tax is 2 mills, and it is 2 cents under the new tax; so it is 10 times—

Senator McLEAN. Yes; but the new tax that is proposed is a 2-mill tax—2 cents on \$10. That would be \$2 on a thousand, would it not?

Mr. STREIT. Yes; \$2 on a thousand, and \$20 on 10,000.

Senator McLEAN. I think it was urged here by some one who was in favor of the bill that most of the brokers or investors figure on a

dollar profit, or thereabouts, on a sale, and that would be \$100 on a hundred shares.

Mr. STREIT. No.

Senator McLEAN. And this 2-mill tax would be so infinitesimal that it would not in any way discourage speculation. I state that as an item urged, I think, by some one who appeared here in favor of this bill.

Your idea is that this added to the other will really limit transactions?

Mr. STREIT. Absolutely. I stated in the previous part of my argument that the average trader on the floor of the exchange prior to any tax traded for \$12.50 or \$25, and that the man in the office who tried to make more had to pay a commission of \$30 for one round transaction which, with the new tax, would be \$50.

Senator McLEAN. I think it was urged that what you denominate the trader—perhaps they are called “jobbers” sometimes—

Mr. STREIT. That term has been used.

Senator McLEAN (continuing). Did not serve any real beneficial purpose in aiding the exchange of stocks.

I merely mention this as one of the arguments that I think was urged by a gentleman who favors this proposal. I did not know, but you would like to amplify your reply to that.

Mr. STREIT. I am very glad that you have asked me the question. The point that you bring up as having been brought up by some one else has been made by many people. We claim that the trader performs a very useful function. When I say trader I do not confine myself to the man on the floor, but the speculator in offices who is trying to make small scalper profits. That man is there to assist in providing a market when securities are thrown on the market in times of weakness, and also to supply securities when people come in to buy. He is there to buy or sell in any amount at any time, and he assists in the freedom of the market.

We are holding no particular brief for the trader, only as he is part of what makes up a free market; and we maintain that to-day New York must have a free market. When I say New York, I mean all of the stock exchanges. We consider that unless this New York Stock Exchange market is free the large interests in the country who wish to float securities and secure money for the benefit of their organizations, either manufacturing or industrial, will not be able to do it as successfully as they have in the past, and that consequently this tax will interfere with the development of the country. The trader and the speculator and the man in San Francisco or in Chicago who is interested in the security market assists in the matter; and if you make this tax so that the fluctuations are wider, the man who wants to sell his 100 shares of stock is not going to find the ready market that he would have.

I do not want to take up too much of the time of the committee. There may be another gentleman who has a word to say.

I just want to say one thing further in connection with the subject of a free market as taken from an English point of view. England has always had a free market. She has always been the capital supplier of the world, up to the present time, and her tax on securities is nothing compared to ours.

We feel that it would be a great mistake, now that we are in the position of being a country that is the creditor Nation of the world, to put restrictions upon our market when we have one of the greatest opportunities that we ever had.

Senator JONES. I would like to ask you a question. You gave some figures a while ago showing the amount of steel common in the hands of so-called investors and so-called speculators. How were those figures obtained?

Mr. STREIT. They were given to us by the Steel Corporation as showing the stocks in the names of brokers and the stock in the names of individuals. Of course those can not be absolutely accurate. Some investors have their stock in the names of brokers and some brokers are carrying stocks in the names of individuals; but experience has shown that as on the transfer books of a corporation stocks go out of the names of brokers into the names of individuals, which means that investors have gradually been absorbing that stock.

Senator JONES. Can the stock exchange obtain that information at any time?

Mr. STREIT. I do not know about other companies, but we obtained it from the Steel Corporation. They keep a record. It is made public. It was not given to us particularly.

Mr. MILBURN. I would like to ask the privilege, Mr. Chairman, as counsel for the exchange, to submit a brief which has been carefully prepared from the information which we have collected from the exchange.

The CHAIRMAN. Your name is what?

Mr. MILBURN. John G. Milburn. I am counsel for the exchange.

The CHAIRMAN. All right, sir. We will have it printed in the record.

(The brief referred to, submitted by John G. Milburn and Walter F. Taylor, counsel for the New York Stock Exchange, is as follows:)

MEMORANDUM ON STOCK AND BOND TAX PROPOSED IN THE BILL (H. R. 14157), ENTITLED "AN ACT TO PROVIDE ADJUSTED COMPENSATION FOR VETERANS OF THE WORLD WAR, PROVIDE REVENUE THEREFOR, AND FOR OTHER PURPOSES."

#### THE AMOUNT OF THE TAX.

The tax on sales of stocks and bonds, debentures, and other similar instruments evidencing indebtedness, that the bill proposes to impose for the period between December 1, 1920, and November 20, 1923, is as follows:

On each \$10 or fraction thereof of face value, 2 cents, unless the selling price is in excess of the face value, in which case the tax is 2 cents on each \$10 or fraction thereof of the selling price. In case of shares without face value, the tax is 20 cents on each share, unless the selling price is in excess of \$100 per share, in which case the tax is 2 cents on each \$10 or fraction thereof of the selling price. The same tax is imposed on rights to subscribe for or to receive shares or certificates of stock.

The tax on the transfer of 100 shares of stock having a face value of \$100 a share or having no face value is \$20, if the market value is not above \$100 a share, however low it may be. If the market value is only \$2 a share, the tax on the transfer of 100 shares is still \$20, or 10 per cent of the entire value of the stock. Likewise the tax on the transfer of the right to subscribe for 100 shares is \$20, although the right to subscribe may be worth only 20 cents a share, or nothing at all. On the other hand, if the market value of stock having a par value is above par on the market value of stock having no par value is over a \$100 a share, the tax is measured by the market value; so that if stock having a par value of \$100 a share sells for \$600 a share, the tax on the transfer of 100

shares is \$120. The tax on the transfer of bonds having a par value of \$10,000 is \$20, unless the bonds are above par, in which case the tax is measured by the selling price, just as in the case of stock.

#### THE PROPOSED TAX AND THE PRESENT TAX.

The proposed tax is more than ten times the amount of the present Federal tax and is more than five times the amount of the present Federal tax and the New York State tax taken together. The present Federal tax is \$2 on the transfer of every 100 shares of stock having a par value of \$100 a share, and \$2 on the transfer of a 100 shares of stock having no par value, unless the selling price is in excess of \$100 per share, in which case the tax is at the rate of 2 cents on every \$100 of the selling price. There is no tax on the sale or transfer of bonds. The State tax is the same as the present Federal tax except that the tax on the transfer of stock having no par value is in all cases 2 cents a share.

The proposed tax applies to bonds as well as to stocks and to Liberty and other Government bonds as well as to other bonds. Instead of being measured by the face or par value, in the case of all stocks having a par value, it is measured by the selling price in all cases where the selling price exceeds the par value. The tax on stocks, therefore, is not merely ten times the amount of the present tax, but differs from it in that it is measured by the face value or the selling price, whichever is greater. The tax on bonds is the first tax of the kind that has been imposed either by the Government or by the State.

#### THE BURDEN OF THE PROPOSED TAX ON THE BUSINESS OF TRADING IN STOCKS.

The stock exchange houses that do a strictly commission business—that is to say, those that do not buy or sell for their own account—would not themselves stand the tax it would be paid by their customers. They would be affected through the decrease in the business that their customers would do. The customers of stock exchange houses and the brokers who trade for their own account are the people who would be directly affected and would directly bear the burden of the tax. The burden of the tax on each of these classes is to be considered separately.

(a) The tax will be more than 50 per cent of the gross receipts from commissions of the stock exchange commission houses and will add more than 50 per cent to the cost to their customers of doing business through them.

If all who trade through stock exchange houses are taken together as a class, investors, traders, speculators, and others, the cost to them of the business they do through the stock exchange houses is made up of commissions, taxes, and interest.

So far as the interest charge to customers is concerned, it is in part offset by the interest and dividends on income-paying securities carried for them by their brokers. The interest received by the brokers is for the most part offset by the interest that they have to pay to the banks.

Leaving the interest item out of account, the commissions charged by stock exchange houses represent their entire gross receipts and are the source from which their expenses as well as the profits of their members are derived. These expenses include the salaries of the multitude of employees who depend on the stock exchange houses for their livelihood, the rents of the offices that they occupy, the sums paid to the telegraph and telephone companies, the cost of maintaining the exchange, the cost of quotations, and all the other incidental expenses of a great business.

The New York Stock Exchange commission rates on stocks bought and sold for nonmembers are based on market values and are  $7\frac{1}{2}$  cents a share on stock selling below \$10 a share; 15 cents a share on stocks selling between \$10 and \$125 a share; and 20 cents on stocks selling at \$125 a share and over. The commission rates on bonds are \$15 for every \$10,000 of par value. The commission received by a broker who sells a hundred shares of stock having a market and par value of \$100 a share is \$15, and a like commission is received by the purchasing broker. If the stock is worth only \$9 a share, each broker gets \$7.50. If the stock is worth \$150 a share, each broker gets \$20. On a round transaction, that is to say, on a purchase and resale for account of a customer, a broker gets both a purchasing and selling commission. On a purchase and resale of one hundred shares of stock having a par value of \$100 a share, his commission is \$30 if the selling price is between \$10 and \$125; \$15

if the price is below \$10 a share, and \$40 if it is \$125 a share or above. The customer, in addition to paying the commission, pays the tax, which at present is \$2 a hundred shares, to the Federal Government, and \$2 a hundred shares to the State of New York. The cost to the customer of a purchase and resale of one hundred shares under present conditions is, therefore, \$34, \$19, or \$44, depending upon the market price of the stock.

If the proposed bill becomes law, the cost to the customer in the three cases will be at least \$52, \$37, and \$67 or more. The cost of purchasing and reselling stock worth less than \$10 a share will be increased from \$19 to \$37. The cost of purchasing and reselling stock having a value between \$10 and \$125 a share will be increased from \$34 to at least \$52. The cost of purchasing and reselling stock having a market value of more than \$125 a share will be increased from \$44 to at least \$67. The additional cost imposed upon the business of buying and reselling stock will be approximately equal to 66 $\frac{2}{3}$  per cent of the broker's commission on the purchase and resale and will be much more than 50 per cent of the entire present cost, including the taxes now paid.

The proposed tax may be likened to a tax on the transportation of goods equal to 60 per cent of the freight rate, or a tax on passenger service equal to 60 per cent of the passenger fare. But in fact the tax would be much more destructive to the business of trading in stocks than a like increase in the cost of freight or passenger service would be to the transportation of goods or passengers.

The people who buy and sell stocks through stock-exchange houses are of many kinds.

There are investors who only make occasional transactions, disposing of securities they have been holding in their safe-deposit boxes or purchasing securities and taking them out of the market.

There are people in whose operations the chance of a speculative profits plays a greater or lesser part. These may buy outright or on a margin. They may buy with a view to holding the securities purchased for a considerable time until general changes in market conditions have brought about an advance in value, or they may buy or sell with a view to making a profit from the fluctuations of the market from hour to hour.

There are on the one side the people who make only an occasional transaction and on the other the people who make a business of purchasing and reselling securities.

The direct burden of the proposed stock tax upon an investor whose only concern with the stock market is to change an investment now and then, will not be considerable. The same may be true of a speculator who only makes an occasional transaction. The great burden of the tax will fall upon those who make a business of buying and reselling securities, and will be greatest in the case of those who rely for their profit on doing a large volume of business and making a small average gain on the different items going to make up that business.

The greater the volume of the business in proportion to the total profit the greater will be the burden of the tax. This burden can not be passed on to others, as would be a tax on the transportation of goods, but must come out of the profits of the dealers themselves.

(b) The members of the exchange who buy and sell stocks for their own account (the so-called floor traders) play the same part on the New York Stock Exchange that is filled on the London exchange by the jobbers. They are the people who in a free market can be counted on to take stock from anyone who wishes to sell and supply stock to anyone who wishes to buy. A market best performs its function when the slightest recession in the price at which stock is offered will bring out buyers and the slightest increase in the price offered for stock will bring out sellers. The greater the amount of stock that the market can absorb or that the market can supply without a marked change in price, the nearer that market comes to meeting the requirements of an ideal market. The floor traders are a factor of immense importance in fulfilling these requirements. The greater their number and the more ready they are to buy and sell on small fluctuations the better the market.

The floor traders in the days before there was any tax, either Federal or State, on the sale of stocks could do business at a cost of only \$1 on every 100 shares bought and resold. The only expense they had to meet was a 50-cent clearance charge on each side of the transaction. The floor trader under those conditions could engage in 100 transactions of purchase and resale at a cost

of only \$100. If he made a profit of one-eighth of a point on 10 out of 100 transactions and came out even on the other 90 transactions, his net profit on the whole series would be \$25; that is to say, \$125 less \$100 expenses. The present State and Federal taxes would increase the cost of the 100 transactions from \$100 to \$500, and in order to meet his expenses without any profit at all the trader would have to make one-eighth of a point on 40 out of the 100 transactions and come out even on the other 60 transactions.

The proposed bill would increase the cost to the trader of 100 transactions to at least \$2,300. If he should make one-eighth of a point profit on all of the 100 transactions he would still be over \$1,000 the loser. In order for him to come out ahead he would have to make a quarter of a point profit on 90 out of the 100 transactions and come out even on the other 10. The matter may be put in a different way. If a floor trader before there was any tax made \$25,000 a year gross profit on 10,000 transactions, his net profit would have been \$15,000. As the taxes now are, the cost to him of engaging in 10,000 transactions would be \$50,000 or double his entire profit. In order to make \$15,000 net he would have to get his \$25,000 gross profit out of 2,000 transactions instead of 10,000. In other words, he would have to make five times as much on each transaction. Under the proposed law the cost to the floor broker of 10,000 transactions would be at least \$230,000 or more than ten times his gross profits. In order to obtain from his business the same net income that he did before (\$15,000) he would have to make his \$25,000 or profit from about 400 transactions. On each transaction he would have to make an average profit at least 23 times as great as the average profit before there was any tax, and more than four times as much as the average profit he has to make to-day.

The meaning of this is, of course, that floor brokers could no longer afford to trade on slight fluctuations. They would not be justified in taking stocks offered for sale until the recession of price was sufficient to afford a very substantial profit nor to supply stocks for which there was a demand until there was a corresponding advance in the price.

#### THE BURDEN OF THE PROPOSED TAX ON TRADING IN GOVERNMENT BONDS AND OTHER BONDS.

The stock exchange has sought to make the market in Liberty bonds as broad as possible, and to that end has prescribed two one-hundredths of 1 per cent as the difference between the prices at which transactions may be had. In other words, \$10,000 in Liberty bonds may be offered or bid for on the New York Stock Exchange at \$10,000, \$10,002, or \$10,004. This is to be compared with the difference in prices at which stocks and other bonds may be dealt in, to wit, one-eighth of 1 per cent, or \$12.50 on every \$10,000 of par value. The tax which is now proposed is \$20 on a sale of \$10,000 of Liberty bonds, or 10 times the minimum difference between the prices at which transactions may be had on the exchange.

The tax is eight-fifths, or nearly twice the amount of the difference between the prices at which bonds other than Government bonds may be dealt in.

#### CURTAILMENT IN THE VOLUME OF TRADING THAT THE PROPOSED TAX WOULD PRODUCE.

A consideration of the facts set out in the preceding paragraphs will show that the proposed tax would result in a very great shrinkage in the operations of all those who make a business of purchasing and selling stocks and securities, whether as floor brokers or as outside dealers. In fact, there will not only be a shrinkage in the volume of the business they do, but an entire revolution in its character. If there is need of any further evidence to establish this, such evidence is furnished by an examination of the effects of the present taxes. The present taxes on the transfer of stocks amount to only \$4 on every hundred shares, whereas the proposed tax, together with the State tax, will be at least \$22 a hundred shares, and maybe more.

For the purpose of ascertaining the effect of the existing taxes on the business of floor traders, a series of questions have been submitted to the leading floor traders on the New York Stock Exchange. The floor traders to whom the questions have been submitted have given written answers expressing their views, and the reasons on which their views are based, in their own language. They are unanimous in their opinions as to the effects of the existing taxes on the business of floor traders. The questions submitted were as follows:

"1. Has the number of men who are purely floor traders decreased in number as a result of the stamp taxes both Federal and State?

"2. Have the stamp taxes materially interfered with the volume and character of the operations of the floor trader? If the character of his operations is changed, in what way? Give as full particulars as possible.

"3. Has the floor trader been less willing to buy stocks on a declining market?"

The following are typical examples of the replies received to the foregoing questions:

"(1) In conformity with your request, I have carefully considered the questions submitted in your memorandum, and will treat them in the order given.

"To the first I make an affirmative answer, the number of purely floor traders has decreased as a result of stamp taxes, particularly since the imposition of the Federal.

"To the second I also reply in the affirmative. The floor trader who before the day of the stamp taxes was able to deal advantageously for a return of one-quarter or even one-eighth of 1 per cent has in my observation abandoned that field, he is forced to base his transactions upon the prospect of a larger return and to thus necessarily limit their number. In my own case my trades for fractional profits have been reduced from 50 to 75 per cent.

"To the third question I answer that the trader being forced to play for a larger profit than formerly is naturally disinclined to take trifling fractional losses, and as a consequence is less willing to chance the purchase of stocks on a declining market.

"(2) To your first question I would say that the number of men who are purely floor traders has decreased. The men who used to trade on the market for small fractions now have to become speculators rather than traders.

"Question 2. In consequence of the stamp tax the operations of the floor trader have continually lessened in volume and also the traders in the offices. You can readily see that the profits must be larger in order to pay these stamps if you are successful in your trading. If you lose on the trade you must add these stamps to the loss. It therefore stands to reason that traders are less willing to buy on a declining market in any volume. The stamp tax is a great deterrent against close fluctuations which tend to stabilize the market whether declining or advancing.

"(3) The number of floor traders has been decreasing more and more rapidly: the paralyzing effect of the sales tax has made it prohibitive for a trader to attempt to make one-eighth profit as formerly, and consequently a wider margin between bid and asked. Traders are to-day paying from 50 per cent of their earnings to many times their gross earnings in taxes. The trader can not support and steady a declining market as he would if tax free. Instead of helping to make New York the great financial center of the world, the Government is putting chains and fetters on the market. The tax should be as named and intended—a transfer tax, and not a sales tax. As a transfer tax it would be desirable and a saving. For the good of the country members of the exchange should be exempt from any sales tax. I have paid the Government many hundred thousand dollars in taxes as a trader on the exchange, and am about to retire from all such activity, so my advice is quite disinterested.

"(4) Taxes are gradually forcing floor traders out of business. A number of traders have been forced to sell their seats, owing to the fact that taxes took all their profits. It is the only business that is taxed on losses as well as on profits. A trader is compelled to demand a wide market. No man can live when a profit of one-eighth nets him \$8.50 and a loss of one-eighth \$16.50. During the war we paid our taxes cheerfully. It is impossible to pay the same taxes under normal conditions.

"(5) Many operations of floor traders were formerly entered into merely for an infinitesimal profit. The present stamp tax is an impossible imposition on such transactions. Out of four operations, to be wrong only once wipes out any profit. Therefore, a trades is not inclined to operate except at a concession and his volume is materially curtailed, as he can not afford to pay \$100 to \$300 a day stamp taxes and have anything left over for profit. In normal times the present taxes will become prohibitive. Many times a small profit can be reasonably seen, but the transaction is not made on account of the stamp taxes. The profit being so small the trade is not worth the risk. These are soul-grinding taxes and while if every transaction yielded a profit part could be relinquished and there would still be something left, but many transactions are made that show losses, and to be taxed for making a loss the same as making a profit is hard to bear.



"(6) He (the floor trader) has diminished the volume of his dealings because of the fixed charge upon any transaction in the way of tax. The same influences that promote this caution on his part act similarly on his fellow traders, and to some but a less extent on all who trade for profit through the offices. So far as taxation has gone, it is probably without appreciable effect upon the willingness of long-term investors to make their trades, but it affects them adversely by narrowing the market and widening the fluctuations which the floor trader is largely instrumental in making. The whole theory of economics usefulness of the floor trader is that he is always ready to take up the slack due to the fact that the orders of outside buyers and sellers often do not meet at the same moment. In a tax-free market the floor trader makes a very close market for either buyer or seller as his trade can be opened and closed with no expense but the clearing charge. Therefore in an eighth market if his judgment is right only three times out of five, is he able to make substantial profits while making the closest kind of a market for the public, but only because so close a market permits his operations on a considerable scale. When a tax of the present size enters into his calculations it at once adds 33½ per cent to his loss and deducts a similar amount from his gains, and if his judgment is correct three times out of four in a taxed-eighth market he will make only two-thirds as much as he would without taxes if right three out of five times.

• "It is manifest, then, that he must proceed more cautiously, diminishing his commitments and demanding larger concessions in prices for compensation for additional risk. It is axiomatic that this attitude on his part makes for greater sacrifices by the public and also directly diminishes the public participation by causing the outside trader to pause because of the probable handicap of one-quarter to one-half per cent fluctuations when he wishes to close the transactions instead of the one-eighth per cent or one-quarter per cent of former days."

The letters from which these quotations are taken and other similar letters express the views of those who are best qualified to form a correct opinion as to the effect of existing taxes upon the floor trader. If they are correct in their opinions as to the effect of the existing taxes—as undoubtedly they are—there can be no question as to what the effect of the proposed tax will be. It will practically eliminate the floor trader from the market.

The effect of the proposed tax on the people other than floor traders who make a business of buying and selling securities will be similar to its effect on floor traders. It will eliminate them from the market except so far as they may find it profitable to trade for large margins of profit in comparatively small amounts of stock. The character of their business will be entirely changed.

The effect of the proposed tax on the entire market is not a matter of conjecture. It may be inferred with certainty from the effect on the market of the increase in the tax on a hundred shares from \$2 to \$4, due to the imposition of the Federal tax under the war-revenue act of 1914 and the war-revenue act of 1917 and subsequent acts. For purposes of comparison the period from May 1, 1905, to May 1, 1910, is taken, and the period from May 1, 1915, to May 1, 1920. During the whole of the first period the only tax in effect was the New York State tax of \$2 on the transfer of every hundred shares. During the period from 1915 to 1920 the New York State tax was in effect all of the time and the Federal tax was in effect from May 1, 1915, to September 9, 1916, and again from December 1, 1917, to May 1, 1920. In both of the periods the clearing house of the stock exchange was in full operation and all transactions in all stocks in which there was continuous active trading were settled through the clearing house. Statistics of the clearing house, kept over a period of nearly 30 years, show that transactions settled through the clearing house are always almost exactly 90 per cent of the total transactions on the exchange. Therefore, a comparison of the transactions settled through the clearing house in the period from May 1, 1905, to May 1, 1910, with the transactions settled through the clearing house in the period from May 1, 1915, to May 1, 1920, will to all intents and purposes be a comparison between the total transactions on the exchange for those periods. In the earlier period the par value of the stocks admitted to the clearing house was \$6,443,481,100. In the later period the par value of the stocks having a par value was \$8,413,105,590, and in addition there were admitted to the clearing house stocks without nominal or par value to the amount of 150,586,464 shares.

Careful computations have shown that on the average the stocks without nominal or par value admitted to the clearing house may be taken as equivalent to stocks having a par value of \$20 a share. Hence the average value of the stocks admitted to the clearing house during the later period may be deemed to be \$11,424,823,870. Therefore, as between the earlier and later period the value of the stocks traded in on the exchange and admitted to the stock exchange clearing house increased 77 per cent. The average number of stocks admitted to the clearing house had in the same time increased 51 per cent. But the average volume of transactions settled annually through the clearing house during the earlier period was 273,000,000 shares and the average volume of transactions settled annually through the clearing house during the later period was 273,000,000 shares.

That is to say, notwithstanding an increase of 77 per cent in the value of the stocks traded in and an increase of 51 per cent in the number of issues traded in, there had been no increase in the average volume of transactions.

The fact that there was no increase in the volume of transactions must be attributed in very great part, if not altogether, to the increased tax.

Between 1905 and 1910 there were two periods of extreme activity and one of extreme depression. Like-wise between 1915 and 1920 there were two periods of extreme activity and one period of depression. The period of depression in the earlier years was more long continued and more profound than in the later years. Between 1915 and 1920 there was a period of a little over a year in which there was no Federal tax. The period of depression to which reference has been made fell within that year. But the average volume of transactions in that year were 15 per cent greater than the average annual transactions during the whole five years from 1915 to 1920. It is submitted that these figures amount to a demonstration of the fact that the addition of the Federal tax to the New York State tax greatly restricted transactions upon the market. If an increase of the tax from \$2 to \$4 had this effect, what effect is to be expected in case of an increase of tax from \$4 to \$22?

#### REVENUE FROM THE PROPOSED TAX.

The transactions on the New York Stock Exchange in a year of great activity will yield under the present existing law between seven and eight millions of dollars. If the proposed tax could be expected to yield an increased revenue commensurate with the increase in the tax, it would produce over \$70,000,000.

The considerations that have been set out in the preceding paragraph show that it is idle to expect any such yield from the tax. The volume of business on the exchange may be reduced 50 per cent, 75 per cent, or even 90 per cent. The proposed tax, instead of yielding more than the present tax, may actually yield less. The only thing that can be stated with certainty is that the yield would be only a fraction of the amount that would result from the present volume of business.

#### THE EFFECT OF THE PROPOSED TAX.

The free market that the stock exchange aims to afford performs a double function. It fixes the current market value of the stocks and securities dealt in on the exchange. It affords the means whereby those who wish to sell securities may obtain the current market price for them, and those who wish to buy securities may get them at such current market price.

The function of the exchange in fixing market prices has been described as follows:

"Every transaction is recorded and the quotations that go out are the result of all these manifold operations. They are the product of the judgments, temperaments, hopes, fears, and doubts of the vast multitude that participate in them. It is a scene of competition; the conservatism of investment face to face with the enterprise of speculation; speculation in the expectation of a rise in prices with speculation in the expectation of a fall; optimism with pessimism; and the resultant of this play of forces is the market price of the securities dealt in moment by moment, hour by hour. The exchange is the crucible in which all these various elements are, as it were, chemically combined and concentrated to produce what we call market values. All these elements are indispensable as supplements and correctives of each other. Eliminate speculation and the conservatism of investment would arrest the development of the country. Arrest speculation in the expectation of a fall in prices and the danger of inflation of prices would be constant. Without the free interplay

of all these forces the market would not perform its function of fixing values for the purpose of trade and commerce."

The operations of the exchange fix market values not only for stocks and securities yielding an assured return, such as the high-grade railroad stocks and the preferred stocks of the stronger industrial companies, but for stocks that have never paid a dividend and whose value lies in their possibilities, for the stocks of companies that are in difficulties and have ceased paying dividends, for the stocks of companies that have met with disaster and whose only value lies in the possibility of successful reorganization, and for the stocks of new companies that are still in the stage of development and can not be expected to show income returns until the development has been carried forward to completion. A fair current market value is put upon the securities of companies in every condition of development, prosperity, decay, and failure.

The other function that the exchange aims to fulfill is inseparably associated with the function of fixing values which has just been described. It affords the means whereby a holder of any of the billions of dollars of securities listed on the exchange can at any time convert them into cash at the current market value. The machinery is so well developed that a man in San Francisco whose stock certificates are in a safe-deposit box in Chicago can sell his securities within the hour and have the price paid to his brokers for his account the next day. Securities can be sold, although they belong to new and unseasoned issues and there is no investment demand for them or no investment demand sufficient to absorb the issue. They can be sold, although there is no prospect of any income return for a long period and even if there is no certainty that there will ever be any income return. Securities that have only a speculative or prospective value are, as it were, held in suspension in the market and passed from hand to hand until they have established their place as investment securities. The stock market, in other words, gives to the securities listed on it a liquid character that but for the exchange would be wholly lacking. But for this the securities listed upon the exchange would be almost as difficult to realize upon as are bonds and mortgages or investments in real estate. It is only because of their liquid character that the holders of stocks and securities listed on the exchange can borrow money upon them, and this statement applies to the farmer in Kansas or to the merchant in Georgia just as much as to the banker in Wall Street. Most important of all, perhaps, it is the liquid character that the exchange imparts to stocks and securities listed upon it that makes it feasible for bankers to underwrite the issues of new enterprises or the new issues of old enterprises in need of additional capital. Except for the fact that the exchange affords a market that will take such securities, the bankers could not in the first instance take the chance of underwriting them, and banks and trust companies could not take the chance of lending money upon them; the development of new enterprises and the raising of additional money for existing enterprises would have to wait until their securities could be placed in the hands of people willing to commit their money permanently to the chances of such enterprises; in a great majority of cases this would mean that the money necessary for new enterprises or for the expansion of existing enterprises could not be raised until the opportunity for spending it to advantage had passed; the free market that the exchange affords is essential to the normal and legitimate development of industry.

Floor traders and dealers who make a business of buying and selling stocks and securities are essential to the existence of a free market that will fulfill the functions that have been described. If they are absent, offers to buy or offers to sell securities in any considerable volume will cause such fluctuation that the market price will not be a true index of market value. Market quotations will not afford any fair index of the price at which further transactions may be made.

The proposed tax, in that it will eliminate the floor trader and outsiders who make a business of buying and selling securities in large volume for the sake of small average profits and will greatly diminish all speculative transactions, must go very far toward destroying the liquid character that the free market afforded by the exchange gives to stocks and securities listed upon it.

#### TAXATION IN ENGLAND.

England has had the heaviest financial burden to bear of all the countries involved in the great war, and has sought to obtain income from all practicable sources, but, notwithstanding her great need of revenue, she has refrained

from imposing any tax of consequence upon ordinary transactions of purchase and sale on the stock exchange.

There is no tax at all upon the ordinary stock exchange transaction except the contract stamp which must be affixed to all contracts of all sorts. There is a duty on the transfer on the books of the issuing corporation of registered stocks, but because it is sometimes necessary for dealers to have stock transferred to themselves before they can resell it, dealers are expressly exempted from the increase in this duty imposed by the recent finance act, and it is further provided that in case of a resale within two months, substantially the entire duty shall be refunded. In other words, England recognizes that in order to maintain her financial supremacy, the ordinary transactions of the stock exchange must not be restricted by taxation; that dealers, who correspond to our floor traders, are essential to the proper functioning of a free market, and that they can not bear any appreciable burden of taxation.

Mr. Wilfred Atlay, chairman of the committee for general purposes of the London Stock Exchange, says, in reference to England's policy in dealing with stock exchange transactions:

"There can, however, be no doubt in the minds of anyone connected with finance that the greatest care must be preserved in any taxation of stock exchange business that the tax is so light as not to interfere with free markets. That is the view held here, and which we have so far successfully upheld. \* \* \* The amount of revenue brought in by any increase that would be practicable without interfering with the freedom of markets and decreasing the turnover would not be large enough to justify it."

The same views are expressed by Mr. Hartley Withers, editor of the *Economist*, London, and formerly one of the expert advisers of the British treasury.

The policy of the English finance act carries out the views expressed several years ago by Mr. Lloyd George, who said, in opposition to a proposed tax on the stock exchange:

"Such transactions being mainly of a speculative character, and worked upon narrow margin, will clearly not bear a rate of duty in any way comparable with that charged upon actual conveyance. Such an impost would, in the first place, from the point of view of the revenue, defeat its object by rendering the greater portion of such transactions impossible; while, in the second place, it would, in my opinion, be opposed to the public interest as calculated to curtail that free circulation of securities which is a necessary condition of steady prices and an open market. For, although these transactions are in the main speculative transactions and do at times, like all speculative transactions, degenerate into mere gambling, it is a mistake to suppose that this is their essential or pervading characteristic. In their proper place, they form part of the legitimate machinery for discounting fluctuations in value, necessary not only to the stock exchange but to every sphere of commercial activity, and the imposition of a penal tax designed to curtail the mischievous developments of the system could scarcely attain its object without inflicting irretrievable damage upon the marketability of securities as a whole."

#### FINANCIAL SUPREMACY.

London has for many years been the banking center of the world. There the people from all countries have gone to obtain money for their enterprises and to market their securities. The vicissitudes of the Great War have brought it about that England has ceased to be the great creditor nation of the world and this position has passed to the United States. The wisdom with which we take advantage of our present opportunities will determine whether we shall succeed to England's financial supremacy or whether England will regain the leadership that temporarily has passed to us. It has always been England's policy to afford a free and open market for securities, and the London Stock Exchange has been the primary security market of the world. If we are to take England's place as the leading financial power we can not afford to handicap ourselves by placing restrictions upon our security markets.

We submit that the proposed tax on stock transfers would impose a wholly unwarranted burden upon the business of dealing in stocks and securities, would through its effect in restricting transactions go far toward defeating its own purpose, and through its effect upon the market for securities would inflict irreparable injury upon the country.

JOHN G. MILBURN,  
WALTER F. TAYLOR,  
*Counsel for New York Stock Exchange.*

**STATEMENT OF JAMES A. MABON, GOVERNOR NEW YORK STOCK EXCHANGE, NEW YORK, N. Y.**

The CHAIRMAN. You are the governor of the New York stock exchange?

Mr. MABON. Yes, sir. I am a member of the board of governors of the New York stock exchange and a broker in bonds. I have had a great deal of business in bonds. That is my specialty and primarily in Liberty bonds.

The stock exchange, in order to make a better market in Liberty bonds, fixed the fluctuations at \$2 per 10,000. If you want to buy \$10,000 worth of bonds you can buy them at a difference of \$2 from the price which a man is willing to pay for them. Let me make that very plain. If Liberty bonds were selling at par you could buy \$10,000 worth of Liberty bonds at \$10,000 and \$2 and sell \$10,000 worth of Liberty bonds at \$10,000. There is a difference of \$2 on \$10,000 between the bid and the offer.

This bill proposes that the tax shall be \$20 on this same \$10,000. So that whereas the difference of fluctuation is only \$2, the tax proposed is \$20.

In making the fluctuation so narrow or so small the market is widened so that a man or a corporation who has to sell five million or ten million dollars of bonds in one day can come into the stock exchange and sell them. At the same time, corporations who have money that is not needed at the time have always a wide market in Liberty bonds. They can in turn be sold, for they will find a ready market. The great thing is the bigness of the market.

A transaction in bonds is not like a transaction in real estate. A transaction in real estate is completed—it is closed. A person goes to a department store and buys an article—and the transaction is closed. A man comes to my office and wants to sell \$10,000 worth of Atchison Railroad first mortgage fours. He comes to my office. I go to the exchange and sell them. The man that buys them has no place where he is going to place them. He sells them to somebody else willing to pay one-eighth per cent more. He in turn will sell them to a bond dealer and he will sell them to an ultimate investor. There may be four transactions before these bonds which have come in from the man who held them as an investment reach the man who wants to buy them as an investment. There will be four taxes of \$20 each on ten thousand dollars before those bonds reach the ultimate investor.

The same thing that is true of Government bonds—I have spoken of the narrow difference between the bid and the offered price—is also true of railroad bonds.

Really, it would be a position where if any investor had to sell bonds with this enormous tax he would have to suffer great sacrifice. Instead of having narrow fluctuations there would be wide fluctuations. If a man came in to sell five millions of Liberty bonds with this present tax it might make a difference of 1 or 2 per cent—

Senator CALDER. As an evidence of my lack of knowledge on the subject, although I am a New Yorker, I would like to know whether in a sale of 100 shares of stock the tax is on the number of shares or on the value of the stock?

Mr. MABON. The tax is on the number of shares of stock of \$100 par value, which depends on the price. If the price is quoted on the exchange the fifty-dollar stock may sell at \$100 a share, and if it sells over \$100 a share then the tax is increased.

Senator CALDER. And if it sells at less?

Mr. MABON. If it sells at less, it is \$20. If the market value is only \$2 a share, the tax on the transfer of 100 shares is still \$20, or 10 per cent of the entire value of the stock.

Let me say, Mr. Chairman, that my office has traded in 420,000,000 Liberty bonds last year, and in addition to that when Liberty bonds were first brought out we made up our minds that we would make a specialty in dealing in small bonds, \$50 bonds and \$100 bonds, so that anybody who wanted to sell \$100 bonds we made it public that we would give within one-tenth of 1 per cent of the price. We have had as many as 1,100 transactions in one day, in small Liberty bonds; and a man who had a \$50 Liberty bond received within 5 cents as much in the value as if he had \$10,000 worth. In other words, our charge is one-tenth of 1 per cent.

The whole point, of course, is that if there had been a tax it is possible that we could not have done this business, that we would not be trading in 420,000,000 of bonds with this tax. We would have to stop entirely, or, if not stop entirely, we would have to buy at great concessions, and the whole point is that because there is no tax on bonds, and particularly Liberty bonds, there is a freedom in the market that makes it possible to sell anything from five to fifty million bonds in one day on the stock exchange, which could not possibly happen if there were a tax of \$20.

Senator CALDER. What is the public advantage in that?

Mr. MABON. The public advantage is that it makes a fluid market, so that people who have money to transfer from one purpose to another can easily do so. A man may want to use money in his business. He might want to sell Liberty bonds to build a factory. There is such a variety of ways in which a man has to change one form of investment for another. A man might find a very fine piece of property for sale. He has Liberty bonds, and he wants to buy the property quickly. He sells his Liberty bonds and buys this piece of property. There are all kinds of investment propositions that present themselves to people and they are able to sell either their Liberty bonds or their stocks or any other variety of investment in order to buy this new proposition.

Senator CALDER. It makes an easier market?

Mr. MABON. It makes a big, wide market, so that people can make themselves liquid.

Senator McLEAN. If you restrict or contract the market it depresses the price?

Mr. MABON. Yes; it naturally depresses the price. It is like a circle which widens throughout the whole country. People from San Francisco, who want to use money for certain purposes, can sell what they have in the stock exchange at a minute's notice. If you are going to have this same person in San Francisco, who needs money, digging around until he can find a purchaser, just as a man who owns real estate has to look around and find a man that wants to buy it, you are going to upset the whole industrial situation in the United States. It ramifies everywhere.

Senator McLEAN. You gentlemen are all experts in this matter. Have you any recommendations to offer to the committee as to how we can raise \$1,500,000,000 for this bonus without displeasing anyone?

Mr. MABON. No; I am sure that you will not increase the amount that you are receiving if you increase the tax that you propose.

I thank you, very much, Mr. Chairman.

Senator JONES. Your judgment is that this increase would not bring us in any additional revenue?

Mr. MABON. Absolutely.

(Witness excused.)

**STATEMENT OF OSCAR W. OLSEN, PRESIDENT CHICAGO MERCANTILE EXCHANGE, CHICAGO, ILL.**

Mr. OLSEN. Mr. Chairman, I represent the Chicago Mercantile Exchange, which trades in butter, eggs, poultry, and cheese. I wish to speak in opposition to section 703 of this bill. The bill provides a tax on all trading in futures or sales made for future delivery of our commodities of 2 cents on every \$10 of the contract value. The present tax is 2 cents on every \$100 of the contract value.

The Chicago Mercantile Exchange is an organization which has been in existence only 15 months. It is composed now of 450 members who are dealers and brokers in these commodities. These dealers are people who live not only in Chicago but in the great western centers of production, such as Kansas City, St. Paul, Minneapolis, Omaha, Oklahoma City, and other places where these dairy products are concentrated.

The Chicago Mercantile Exchange came into existence because of the necessity of finding a market where goods could be bought or sold for future delivery. Butter and eggs are not produced continuously every day of the year. During the months of March, April, and May fully one-half of the eggs are produced, and in the months of May, June, and July approximately one-half of the milk is produced that is manufactured into butter.

Chicago is the center of the produce business or the dairy-products business, as far as marketing is concerned. I wish to just cite a few figures from the United States Department of Agriculture showing the relative importance of Chicago as a butter market. Last year the total receipts in the four large dairy markets of the country—Chicago, New York, Boston, and Philadelphia—of butter were 387,405,333 pounds. Chicago's receipts were 147,926,898 pounds. Eggs, the total receipts in these four markets amounted to 369,562,110 dozen. Chicago's receipts were 124,469,340 dozen.

We have found that because of this trading we have been able to make a broader and larger market for the producer of these commodities, and he has been able to sell commodities at a considerable less charge for selling than was the case before the exchange was organized.

Chicago is the largest cold-storage center in the world, because butter and eggs are produced in large quantities during only a small portion of the year, and there must be buyers who will take these goods and place them in warehouses in order that they may be kept for the time of scarcity. The man who puts eggs into warehouses is

able to pay cash to the producer for his goods and carry them until such time as the consumer wants them.

We have found that because of this trading for future delivery of these commodities, first, prices have been stabilized; large fluctuations which have occurred in former years in these commodities have been lessened. The fluctuations are very much narrower than they were before. We trade on a quarter of a cent per dozen. Values have been stabilized. In order that men might pay cash for these dairy products at the time of great production and carry them safely they must have loans on warehouse receipts usually. These warehouse receipts are accepted by the banks as collateral for loans—

Senator JONES. What is the period of maturity of these loans as a rule?

Mr. OLSEN. During the past year they have been 90 days.

Senator JONES. You do not expect to actually pay them at the end of the 90 days; you expect to renew them, do you not?

Mr. OLSEN. I would say that a great many of them have been paid within 90 days.

Senator JONES. Well, if you are buying and dealing in a product that comes in 3 months of the year and it takes 9 months of the year to dispose of it, you do not expect to pay all of your obligations at maturity in 30, 60, or 90 days, do you?

Mr. OLSEN. I see your point. They are carried over.

Senator JONES. In other words, you expect renewals from your banks, do you not?

Mr. OLSEN. Yes, sir. The ability to sell against these goods that are in the warehouse, to "hedge" against them, in other words, has made it possible for the banks who are loaning on this collateral to transact the business. That means not only the banks in Chicago, but in the Middle West. They know the actual value of these goods every single day of the year because of the existence of this market. They are better protected because they know just what the goods represented by the warehouse receipts would bring on the open market. This could not be done prior to the establishment of the Chicago Mercantile Exchange.

That exchange handles goods more economically than they were handled before from producer to consumer. The competition is larger. The competition for the goods in the country increases the amount that the producer may receive and thereby stimulates production of these commodities. The market is broad and a seller of these particular commodities may sell one car of butter containing 20,000 pounds for a brokerage fee of \$50. He can sell a car of eggs containing 12,000 dozen for a brokerage fee of \$30, or one-fourth of a cent per dozen.

Trading in futures, we believe, has prevented the large interests from going out and buying commodities at practically their own price and then absorbing them, putting them in their own warehouses and holding them until such time as they might be willing to sell them.

Therefore we oppose the proposed tax increasing it by ten times—from 2 cents per \$100, as it now exists, to 2 cents per \$10—because it would increase the cost to the producer in selling his goods. A crate of eggs to-day can be sold for \$30. The proposed tax at the present valuation of eggs would mean about \$16 tax, or would increase it



about 50 per cent in the actual selling charge; and the same approximate relation applies to the sale of butter.

We feel, therefore, that if this present tax should pass it would discourage the people who are trading in the market; it would make the market less broad, make it more narrow, and thereby give to the producer of these commodities a lower price than he can now receive.

The CHAIRMAN. We are much obliged to you, Mr. Olsen.

I think this closes the testimony on this particular subject. Senator Spencer desired to have some witnesses on another matter this afternoon. We have other witnesses here on another feature, and after we hear those witnesses probably we had better take a recess until 2.30 o'clock this afternoon.

I will call upon Bruce Bowe, of Richmond, Va.

**STATEMENT OF BRUCE BOWE, MEMBER OF THE LEGISLATIVE COMMITTEE OF THE NATIONAL ASSOCIATION OF REAL ESTATE BOARDS, RICHMOND, VA.**

The CHAIRMAN. You will direct your testimony to section 704 of the bill?

Mr. BOWE. Seven hundred and four; yes, sir; in regard to the real estate tax.

I am here as a member of the legislative committee of the National Association of Real Estate Boards, which has a membership scattered throughout the United States of 11,000 men.

Real estate to-day is paying a Federal tax of \$1 a thousand. Under this proposed tax you add \$5 a thousand more. Real estate is something that you see. In addition to the Federal tax, it is being taxed and increasingly taxed every year for State and municipal purposes. It has gotten to the point where people do not want real estate.

The putting on of this additional \$5 tax is going to be an awful burden. It is going to handicap and prevent the struggle that the National Association is making toward the housing proposition, toward that thing which we believe appeals to the best interests of the country in making citizens for our United States, and that is to have a man own his own home. We think that this additional burden that will be put on will be a great handicap in this respect, and will make real estate grow very unattractive, and it will be hard to make sales, and thereby not permit the Government to get any additional revenue.

As a member of the legislative committee, I protest on behalf of the association against this section relating to real estate taxes.

The CHAIRMAN. We are much obliged to you, Mr. Bowe. We will hear next from Mr. Ferguson, of Baltimore.

**STATEMENT OF W. E. FERGUSON, REPRESENTING THE NATIONAL ASSOCIATION OF REAL ESTATE BOARDS, BALTIMORE, MD.**

Mr. FERGUSON. I likewise represent the National Association of Real Estate Boards, Mr. Chairman and gentlemen, and also the Baltimore board, which has about 550 members at the present time.

I have jotted down a few things here as regards this provision of a tax of \$5 on real estate. Up until, I believe, the present tax of \$1 per thousand was put on real estate by the Federal Government there

had not been any tax by the Federal Government on real estate throughout the country, and we believe that that is the best principle of taxation of real estate. Real estate to-day pays about 80 per cent of all State and municipal government taxation. For that reason, by reason of the improvements going on throughout the State, bond issues for good roads, and for other things, real estate should not be taxed by the Federal Government—

The CHAIRMAN. By 80 per cent you mean in some particular State? I suppose there would be quite a little difference in the different States in that respect, whether purely agricultural or whether based on the value of these enormous buildings in cities?

Mr. FERGUSON. Yes, sir. The majority of the revenue of State and municipal governments is derived from taxation of real estate.

The CHAIRMAN. You are taking the States as a whole when you make that statement?

Mr. FERGUSON. Yes, sir; as a whole. The States have been up against the same proposition as the Federal Government is, and they need money. What has been the consequence? Up have gone the rates, and up have gone the assessments. In our State we assess on the basis of value. In other words, we are supposed to pay a rate on the full value of the property. Our State rate is about 36 cents. Our city rate, combined with the State, runs about \$3.34 a hundred. That is thirty some dollars a thousand and three hundred and twenty some dollars for ten thousand. This tax on top of that on a \$10,000 sale is \$50.

Real estate, as we all know, is practically fixed in area. You can always locate it. It is a thing that you can always get. You can always tax it. It can not escape being taxed. There are plenty of other things that do escape being taxed, as you know, sir, and for that reason it has paid. I suppose, if you take it from time immemorial, it has paid more taxes than any other commodity and is paying more taxes than any other commodity, when you take into consideration the cities and the municipalities.

There are just two other points that I wish to discuss. One point is that which everybody knows; and I think you have a Senate investigating committee on this building proposition to-day. I have seen Government statistics stating that the country needs to-day 3,000,000 houses. You have got to provide somebody to build those houses. If you put a tax of \$50 on ten thousand, or \$5 a thousand, it has to be added onto the price of the house, because the houses that are needed have to be erected. In our town the average builder in building what we call an industrial house that sells for about \$5,500 gets a profit of about \$750. He has risked, and he is entitled to \$750 profit on the house, which is about 12 per cent, I think, on his investment.

If you add \$250 more in this tax the home buyer has got to pay that tax, and you will just simply retard to a certain extent the erection of the necessary houses needed at this time.

Another thing that I have noticed in this bill is, why do you charge 5 cents for real estate and 2 cents for stocks and bonds, and 2 cents for this produce proposition?

Stocks and bonds in their transactions are not paying anything to-day like real estate is paying, taking all States and the cities into consideration. But you are making us pay twice and more on this proposition if this bill prevails.

That phase of it, of course, we are opposed to. We are opposed to a tax for the reasons stated, that real estate pays more than its share of tax at the present time.

I thank you.

The CHAIRMAN. We are very much obliged to you, Mr. Ferguson.

I have a statement here presented by the Investment Bankers' Association of America, relative to H. R. 14157, which I will ask to have inserted in the hearings.

(The statement referred to is as follows:)

WASHINGTON, D. C., December 31, 1920.

HON. BOIES PENROSE,

*Chairman Committee on Finance,*

*United States Senate.*

SIR: On behalf of the Investment Bankers' Association of America, I have the honor to present the inclosed memorandum relative to bill H. R. 14157, now pending before your committee, and to respectfully ask that the same may be considered by the committee in connection with said bill.

Very truly, yours,

PAUL V. KEYSER.

MEMORANDUM ON BEHALF OF INVESTMENT BANKERS' ASSOCIATION OF AMERICA  
RELATIVE TO H. R. 14157.

To the COMMITTEE ON FINANCE,

*United States Senate.*

The Investment Bankers' Association of America files this memorandum relative to sections 701, 702, and 706 of H. R. 14157. Without any discussion of the merits of the various compensation provisions of the bill, this association is concerned with the revenue provisions of section 701 from the standpoint of its members as owners and distributors of all classes of investment securities as affecting just and productive taxation. It is concerned with sections 702 and 706 as directly affecting the business of its members.

*Section 701.*—In connection with the added surtaxes proposed by this section we would ask the committee to keep in mind that this would mean an added business tax on all partnerships and individuals as distinguished from corporations. If the excess-profits tax is to be repealed, Congress is confronted with the necessity of lowering the surtaxes, which, at the time of the passage of the excess-profits tax provisions were increased in order to equalize the taxes of business conducted in partnership and individual form with the excess-profits tax which was imposed only on business conducted in corporate form. The provisions of this section increase the surtaxes and place one more difficulty in the way of making the necessary adjustment of surtaxes in case of the repeal of the excess-profits tax.

*Section 702.*—This section imposes an additional sales tax on stocks and a sales tax on bonds.

By this section sales or transfers of stock and bonds made between December 1, 1920, and November 30, 1923, are taxed 2 cents on each \$10 or fraction of face value, unless the selling price exceeds the face value, when the tax is 2 cents on each \$10 or fraction of the selling price. Thus the tax on both stocks having a face value and on bonds selling at par or a discount is one-fifth of 1 per cent of par. If the sale is at a premium then the tax is based on the selling price, and in most cases of bonds would be a small fraction over one-fifth of 1 per cent. The tax on a \$1,000 bond selling at 80 would be \$2, and while this is one-fifth of 1 per cent of par, the discount makes it one-fourth of 1 per cent of the selling price. In the case of shares without par value the tax is 20 cents a share, unless the selling price exceeds \$100 per share, when the tax is 2 cents on each \$10 or fraction of the selling price. For illustration, on a no-par share selling at \$100 the tax would be one-fifth of 1 per cent on the sale price; if the sale price were \$80 the tax would be one-fourth of 1 per cent; if \$60, one-third of 1 per cent; \$40, one-half of 1 per cent; \$20, 1 per cent; and in the case of a sale price of \$10 it would be 2 per cent. By the terms of the act no exceptions are made as to the tax on bond sales so it would apply to the United States, municipal, and corporation bonds alike. It is axiomatic

in the taxation of securities that in the case of a new issue the borrower pays the tax either by an increased interest rate or a decrease in the selling price. In the case of an outstanding issue the seller pays the tax through loss in the sale price unless he can induce the buyer to absorb the tax.

We think that this tax should be changed in two respects. It is a sales tax whatever it is called. The minority report on the bill states that the Republican members of the Ways and Means Committee had originally agreed on a sales tax as a principal item of the bill, but later rejected it. There is already a sales tax on stocks at a fair rate in the existing stock-transfer tax. This being true, why should the Ways and Means Committee have added to this sales tax if it is against a sales-tax policy? We would suggest a tax on some business transaction not already bearing a direct sales tax. If, however, an additional stock-sales tax is to be imposed let it be at a reasonable rate somewhat in line with the present tax of 2 cents for each \$100 of the face of par value stocks and of the selling price of no par stocks. The proposed three-year rate is not only unwarranted on par value stocks from a sane business standpoint, but is prohibitive on no par stocks. The committee report in stating the tax amounted to one-fifth of 1 per cent apparently did not realize its effect on no par shares, or, if it did, could not have realized its detrimental effect upon no par share financing.

It is true there is no present sales tax on bond transfers. There is, however, a present tax on the issuance of corporate bonds. As in the three-year rate for stocks the bond rate in the bill is too high, and if the bonds are to be selected as the basis for a sales tax the rate ought to be more in line with the present stock-transfer rate of 2 cents a \$100. This, together with the State taxes on transfers and the increased cost of handling, has already had a retarding effect on a free-security market. The three-year rate proposed will be reflected in Liberty bond prices and, if it may be constitutionally applied to obligations of States and their political subdivisions, will add to the present difficulties of municipal financing in a high-money market.

As a summary, we believe the added sales tax on stocks should be stricken from the bill and a sales tax on some presently untaxed transaction substituted; but, if it is to be retained, that the abnormal rates should be corrected. We also believe that if bond sales are to be taxed the rate should be reasonable and in line with present stock-sales taxes. Whether or not municipal bond sales may be taxed raises a constitutional question. The tax undoubtedly lays a burden on the instrumentalities of the States.

*Section 706.*—This section provides that corporations shall pay an excise tax on all dividends declared and paid in their own stock or shares on or after March 15, 1920. This tax is equivalent to \$10 a \$100 or fraction of face value, and on shares having no par value \$10 a share unless the market value exceeds \$100, when the tax is \$10 a \$100 or fraction of market value. This tax is open to three principal objections:

1. It is retroactive in effect. Being an excise tax it is a tax on a privilege, and in the opinion of many lawyers a privilege tax may not be retroactive.

2. While the tax in cases of par value shares would amount to 10 per cent of the face value, it would in the case of shares having no par value vary between 10 per cent and 200 per cent. If a no par stock when issued had a market value of \$100 or more the rate would be 10 per cent. If the market value were \$50 the rate would be 20 per cent. If it were issued at a value of \$10 the rate would be 100 per cent, and if at \$5 the value would not only be confiscated by a 200 per cent rate, but the corporation could better afford to make the Government a present of \$5 a share on its stock than issue a stock dividend.

3. The rate being in many cases of modern financing clearly confiscatory, is the tax intended to raise revenue or to prohibit the issuance of stock dividends? The Ways and Means Committee report estimates that its future levies would raise only \$7,500,000 annually, or about 2 per cent of the revenue estimated to be raised by the bill. The minority report states that this feature was forced into the bill in the Ways and Means Committee by 10 Democratic members aided by 3 Republicans and was intended to offset the revenue lost by the decision of the Supreme Court in declaring the stock-dividend tax unconstitutional. In other words, it is an attempt to tax indirectly by means of an excise tax a supposed profit which the Supreme Court decided did not exist and therefore could not be taxed directly. This seems like bad economics and doubtful public policy.

Respectfully submitted.

INVESTMENT BANKERS ASSOCIATION OF AMERICA.  
By ROY C. OSGOOD, *President*.

PAUL V. KEYSER, *Counsel*.

The CHAIRMAN. Is there any other witness here on that subject that desires to be heard?

(No response.)

The CHAIRMAN. If not, we have one witness here from my State who has just given his testimony before the House committee on this question of futures, and especially relating to the matter of hedging as against purchases. I will call on Mr. Scott, of Grand Forks, N. Dak. Mr. Scott is a very extensive farmer and cattle and sheep raiser, and also has had very much experience in the shipping of grain. He desires to be heard upon that feature of the bonus bill.

Mr. Scott, we will be glad to hear from you now.

#### STATEMENT OF J. W. SCOTT, GRAND FORKS, N. DAK.

Mr. SCOTT. I have not anything particular to say. I would prefer that you gentlemen ask me any question that you wish me to answer from the standpoint of a farmer.

As Mr. McCumber has said I have been a farmer for 50 years—40 years in North Dakota. If I knew just what information you wished may be I could, from my own initiative, present it, but I would prefer, as I said, to be asked questions.

The CHAIRMAN. There is in this bill quite a heavy tax levied upon the selling of futures, etc., and we would like to hear you upon that subject as to how the futures or hedging are associated with the marketing of grain in the northwest and how it operates and what necessity, if any, there is for it.

Mr. SCOTT. As I see it, this dealing in futures is beneficial to the producer. As you all know, dealing in grain is a very speculative business. The man who buys the actual wheat, as I see it, hedges it. He has got to have somebody to hedge on, and there is nobody to hedge on, as I see it, except the speculator. All over this country there are speculators. There are men who are willing to take their changes on either making or losing money, and who buy and sell futures. As I see it, the dealer—and I have had a little experience—can handle this grain with a much closer margin because of this future trading. He can sell it for future delivery in some months, or "to arrive."

The CHAIRMAN. That is, he can buy on a closer margin?

Mr. SCOTT. Yes, sir; he can buy on a closer margin if he is a speculator. I think if this bill should go into effect, what I have seen of it, the real handler of grain would be the speculator instead of the outside fellow—Tom, Dick, or Harry—who wishes to speculate in grain.

The CHAIRMAN. Will you explain how the grain is handled in your State by the elevators and as to any necessity whatever, if there be any, for hedging?

Mr. SCOTT. I think there is. I think there is great necessity for hedging. They buy great quantities of grain in the fall when the farmers are ready to market their grain—

The CHAIRMAN. Local elevators, you mean?

Mr. SCOTT. Yes. Somebody has got to carry that grain and somebody has got to do the speculating. As I see it, the elevator man, as he buys the actual grain, sells it for future delivery, which they call

hedging, so that when it goes down, if it does go down, it protects him from loss.

The CHAIRMAN. Does he sell that identical grain for future delivery, or does he sell some other grain for future delivery?

Mr. SCOTT. Well, now, I will tell you. No; he does not sell the identical grain. He just merely gives an order that goes to the exchange. If he sells in Chicago, Duluth, or Minneapolis, there in the pits, in the different pits of these institutions, that grain is offered for sale. He is the seller; and the buyer comes from anywhere, all over the country.

Senator McLEAN. I think there is a bill pending which recognizes the value of the grain exchange in so far as it permits the miller to hedge, but which prohibits speculation, on the ground, as I assume—I have not examined it very carefully in recent years—that speculation is a gamble and is an injury to the producer, whereas the miller is really entitled to an opportunity to hedge on his purchasers.

Your idea is, if I understand you, that the miller could not hedge very well unless he had somebody to sell to?

Mr. SCOTT. Surely he can not. He has got to have somebody to hedge on.

I might answer your question by asking you another: Who is he going to hedge on?

Senator McLEAN. I am rather inclined to be with you; but I was stating the existence of such a measure as being proposed in the interests of the producer, and preventing the farmer from getting what he would otherwise get.

Mr. SCOTT. It is possible, I think, when conditions warrant lower prices for the short seller to depress prices. That is what we call a short seller—the man who sells something that he has not got. But unless conditions favor him, I do not think that he can depress the market to any great extent. He can for a short time, but world conditions, I think, will control the price of wheat.

The CHAIRMAN. What is to prevent the average dealer in wheat in our State when he purchases it from the farmer from selling that same wheat on the same day to arrive, so as to prevent loss by reason of a decrease in the price after he has purchased?

Mr. SCOTT. Selling to arrive means for just a short time. I think it is 20 days now, but I think until this year it had only been 15 days. We market wheat very rapidly when all the threshing machines are going, and we fill the elevators to the roof. This year in less than a week we filled the elevators full to the roof, so they had to stop unless they could get cars to ship it out. That means that they would not deliver that wheat in Minneapolis or anywhere else within 15 to 20 days.

The CHAIRMAN. Can they deliver it within the time fixed for future deliveries?

Mr. SCOTT. They can as future, because that means a more distant time. Like in the early fall they deal in December wheat; at this time of year they sell or buy for March or May delivery.

The CHAIRMAN. Then, as I understand you, the elevator man who has purchased to the capacity of his elevator can not safely depend on selling that to arrive in 20 days?

Mr. SCOTT. No; he can not depend on it at all.

The CHAIRMAN. And he can not sell for future delivery for a longer period than 20 days? The identical grain, I mean?

Mr. SCOTT. No.

The CHAIRMAN. Because of what—some rule of the board?

Mr. SCOTT. The board makes that rule. To arrive is 20 days. As to the future months, say, December or March, the exchanges make those months. They sell or buy for delivery in those months.

The CHAIRMAN. Can I not sell, if I am a purchaser of wheat in North Dakota, that wheat to arrive in Minneapolis 30 days from the date I buy it?

Mr. SCOTT. No.

The CHAIRMAN. Why? That is what we want to know.

Mr. SCOTT. I do not know that I could—

The CHAIRMAN. Or within 30 days?

Mr. SCOTT. To sell to arrive? You can do that. That means 20 days at the present time this year, but no longer time than that. Any longer time than that you have got to sell for some of these months in which they are trading. At the present time it is March.

Senator McLEAN. The miller purchases large quantities early in the season, does he not?

Mr. SCOTT. Yes, sir; sometimes I think they do.

Senator McLEAN. If the demand warrants, the speculator judges of the price to the best of his ability, but they need large quantities in the course of the season, and they buy early in the season?

Mr. SCOTT. They buy for future delivery.

Senator McLEAN. Just what is meant by future delivery when they buy?

Mr. SCOTT. As I see it the man who sells has all the months in which he sells to deliver the wheat. The buyer, where it is the actual grain, has to protect that grain whenever the seller is ready to deliver.

Senator McLEAN. Does the miller, for instance, buy a certain number of bushels of September wheat and a certain number of bushels of October and November and December wheat early in the season?

Mr. SCOTT. He can; yes.

Senator McLEAN. I was asking you as to the custom. I do not know.

Mr. SCOTT. Where a miller, as I understand it—I am not a miller; I am a farmer—where he sells a quantity of flour for future delivery he buys that wheat, and in that way he knows what his wheat is going to cost him, and he knows what he can sell the flour for.

Senator McLEAN. Does not his transaction cover several months?

Mr. SCOTT. Yes.

Senator McLEAN. In advance?

Mr. SCOTT. Yes.

Senator McLEAN. And is not that the reason why he must be in a position to sell several months in advance?

Mr. SCOTT. Yes; surely.

Senator McLEAN. In order that he may effectively hedge his purchase?

Mr. SCOTT. Yes, sir; he has got to hedge by buying, and as I understand it, the buyer of the flour also hedges by selling this future delivery of wheat. He can not sell an option on a future delivery of

flour—that is, he can of the real flour, but has got to deliver the flour, you know, and he hedges by buying the wheat and the purchaser of the flour hedges by selling wheat; so that even if flour goes down on his hands he is making a profit on his wheat that he has sold equivalent to the amount of flour.

Senator McLEAN. It is your opinion that if you eliminate the speculator or the gambler, as he is sometimes called, because at times he may depress the market or attempt to, you can not tell when he may be necessary to sustain the market, and it is a pretty dangerous proceeding to eliminate him altogether from the exchange transaction?

Mr. SCOTT. Yes. I do not see any way to distinguish between a short seller and a buyer who buys something he does not want. One offsets the other, in my judgment.

Senator McLEAN. It is the same in grain, is it not, as it is in all products, stocks, or any commodity?

Mr. SCOTT. Yes, sir.

Senator McLEAN. The short seller, while he may gamble, at the same time serves the purpose, which is a very valuable one at times in sustaining the market?

Mr. SCOTT. I think so.

Senator McLEAN. Providing always a free market?

Mr. SCOTT. Yes. It makes the market, as I see it, in this way: A farmer can always get cash for his grain. There is a great movement on now by the Farm Bureau to eliminate all this. I am in hopes they can. I would like to see it and I hope I will live long enough to see it. I am afraid that we old fellows will not.

Senator McLEAN. If you are a sample of the farmers in North Dakota I think they are a pretty sensible lot.

Mr. SCOTT. Well, I am one of them. I have got no other business. (Whereupon, at 4 o'clock p. m., the committee adjourned to meet at 10.30 a. m., Friday, January 14, 1921.)



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